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# **Governance Systems for Organisations**

## **Governance Information Control System Design and Development Methodology for NGO Boards**

By  
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*Submitted in partial fulfilment of the requirements for the award of an Engineering  
Doctorate.*

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*November 14, 2003*





G.LI & CO.

**Governance  
Information Control  
System Design &  
Development  
Methodology for  
NGO Boards**

Gregg Li  
Innovation Report  
November 14, 2003

**TM**

Architects of Governance



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Annex A: Good Practices Guidelines, taken from the Management Audit System.

Annex B: Scoring Guidelines and Comparison with Quality Standards.



# 1 List of Abbreviations

BSP	IBM's Business System Planning Methodology
CAI	Computer-Aided Instruction
CASE	Computer Aided Software Engineering
CBT	Computer-Based Training
CCC	GISDER's Critical Control Components
CD	Compact Disc
CD-RW	Compact Disc – Read and Writeable
CE	Chief Executive [Officer]
CRM	Customer Relationship Management System
COBIT	Control Objectives for Information and Related Technology
CSCW	Computer Supported Collaborative Work
CSRC	China Securities Regulatory Commission
DSDM	Dynamic Systems Development Method
DSS	Decision Support System
DVD	Digital Versatile Disc
ED	Education Department of Hong Kong
EIS	Executive Information System
ERM	Enterprise Resource Management
ERP	Enterprise Resource Planning
ESS	Executive Support System
ETHICS	Effective Technical and Human Implementation of Computer-based Systems Methodology
FSA	Funding Service Agreement
GIS	Governance Information System
GISDER	Governance Information System Design, Enhancement, and Review Methodology
G. Li & Co.	G. Li & Company Limited
GOA	Government Office Automation
GOVIS	Governance Information System
HK	Hong Kong
HKCSS	Hong Kong Council of Social Services
HKSAR	Hong Kong Special Administrative Region of the People's Republic of China
HKEEx	Stock Exchange of Hong Kong
IE	Information Engineering
IEF	Information Engineering Facility
IEEE	Institute of Electrical and Electronics Engineers
INED	Independent Non-executive Director
IMC	International Management Centres
IOD	Institute of Director
IPO	Initial Public Offering
IRRC	Investor Responsibility Research Centre
IS	Information Systems
ISAC	Information Systems Work and Analysis of Change Methodology
IT	Information Technology
JSD	Jackson's Systems Development Methodology
LMS	Learning Management Systems
LSG	Lump Sum Grant or Block Grant
MBA	Master of Business Administration
MCI	Management Charter Initiative
MDC	Management Development Centre of Hong Kong, VTC
MIS	Management Information System
MIT	Massachusetts Institute of Technology
MUD	Multi-User Dimension
MUST	Motivation, Usage Behaviour, Satisfaction, and Task Performance
NED	Non-executive Director
NGO	Non-Government Organisation



NIMSAD	Normative Information Model-based Systems Analysis and Design
NPO	Not-For-Profit Organisation
OC	Other Charges
OOA	Object Oriented Analysis
P Learning	Programmed Learning
PA	Personal Assistant
PBL	Problem Based Learning
PC	Personal Computer
PDA	Personal Digital Assistant
PF	Provident Fund
RAD	Rapid Application Development
SAM	Software Asset Management
SBM	School Based Management
SEHK	Stock Exchange of Hong Kong
SFC	Securities and Futures Commission
SMC	School Management Committee
SME	Small and Medium Enterprises
SMI	School Management Initiative
SPMS	Service Performance Management System
SOEs	State-Owned Enterprises
SSADM	Structured Systems Analysis and Design Methodology
SSB	School Sponsoring Body
SSM	Soft System Methodology
STRADIS	Structured Analysis, Design, and Implementation of Information Systems
SUMI	Software Usability Measurement Inventory
SWD	Social Welfare Department of Hong Kong
TBL	Technology-Based Learning
TIS	Total System Intervention
UK	United Kingdom
US	United States of America
VC	Venture Capitalists
VSM	Viable Systems Management
VRAPS	Vision, Rhythm, Anticipation, Partnering, and Simplification Methodology
VTC	Vocational Training Council, HK SAR Government
WBI	Web-Based Instructions
WBT	Web-Based Training
WTO	World Trade Organisation
YSM	Yourdon Systems Method



## 2 List of Tables and Diagram

- Diagram A: The GISDER Component and Methodology Development Process
- Table 1: Component Development Process
- Table 2: Three Grades of Complexity



### 3 Acknowledgement

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## 4 Abstract

*This submission reviews and examines the responsibility and role of non-executive directors in reinforcing the self-governance systems for non-government organisations (NGO). Corporate governance is an issue of great concern at Government and commercial levels and a prime topic in the media due to scandals at Enron, WorldCom, the British Museum, Tyco, and at a host of smaller organisations. This research explored the contributory systems and processes towards enterprise governance and provided new insight into how the boards of directors of NGOs can develop and be in a position to amend the parameters for their own information systems for self-governance. Unless these NGOs can govern themselves properly, their boards may eventually lose their mandate. The governance of NGOs is difficult because of the voluntary and part-time nature of directorship, a lack of information support system, and a comparatively lower level of transparency. Schools, hospitals, productivity councils, universities, social welfare institutions would be representatives of such NGOs. The research has used Hong Kong as the test base at a time when NGOs are given more authority and ownership for self-governance.*

*A series of action-based case studies undertaken are summarised and used to identify the control components and processes leading to higher levels of self-governance. These together with an extensive literature survey on corporate governance and on the development of governance information systems (GOVIS) were used to develop a new process methodology for designing and developing governance information system for NGOs. Known as GISDER, the methodology links Rochart's Critical Success Factors (Rochart, 1979), cybernetics (Capra, 1997), systems thinking (Beer, 1985; Jackson, 2000), and adult learning (Ackoff, 1999) concepts with control components unique to the organisation under review. The relevant control components for a particular NGO are identified from fifteen base components. Elements of the process methodology have been further tested in some NGOs. A thorough evaluation discussion and thoughts on the applicability of the derived methodology for other types of organisations have been provided. It is concluded that self-governance for NGO boards cannot be assumed and that the components for a GOVIS for self-governance can best be developed and evaluated through the GISDER methodology. The methodology is now at the core of a consultancy offering for NGOs in the Greater China region.*



## 5 Introduction

### 5.1 *Introduction to the Research*

The issue of effective control has been a key area of focus in corporate governance (Tricker, 2000; Simons, 1995; Turnbull, 1997a). Notable cases like the failure of oversight by the Board of Directors at Barings Bank over derivatives trading remind us of the consequences of failure of governance control. As much as there were failures in internal control through the day-to-day supervision by Nick Leeson's supervisor, there was an absence of oversight in the system. According to Neubauer and Lank (1998), the directors at Barings simply had failed to establish and approve an effective policy for the use of derivatives which was consistent with the strategy, commercial objectives, and risk appetite of the organisation.

Recent cases like the British Museum in the United Kingdom (Economist, 15 Sept 2001), WorldCom, Tyco, and Enron in the United States (Richter and Ma, 2002), Yingguangxia in China (Economist, 23 March 2002) are a constant reminder of the need for higher levels of governance. Many cases in Hong Kong involving NGOs like the Hong Kong Airport Authority's fiasco with the opening of the Hong Kong Chek Lap Kok Airport (Ombudsman, 1999) or the strategic demise of the Hong Kong Housing Society and other non-government organisations (NGOs) (ADB, 1999) will continue to remind us that the systems behind governance control are not working as well as they should.

What should boards be doing? Why are they unable to govern their organisations properly? What is the information support system necessary for governance and how does the board learn to employ and employ such systems? Is the



problem associated with the lack of oversight and control? What should be the roles and responsibilities of the directors?

In fact, is it possible to establish a self-regulating and watertight governance control system for the NGO board? There could be, as long as the control system could be made immediately responsive to the changing needs of the environment and that there are adjustors who could influence a sufficient level of control to counterbalance any disruptions, thereby bringing it back to equilibrium. This is the concept behind cybernetics, or the science of control and communications (Jackson, 2000). The growing diversity of the environment, higher calling for accountability, increasing globalisation, the changing management systems which it oversees, and the sophistication of the information and monitoring systems have made this task immensely complex for boards of directors (Cadbury, 2002). For the control and monitoring systems to be adaptive, the board of directors play a vital role as adjustors and controllers. Directors need to understand what to control and when to control based on timely information from the market and from the organisation, adjusting the systems when necessary (Parker, 1990; Tricker, 2002). This necessitates that the directors are cognizant of proper corporate governance practices, be involved in the development of supportive information system which would enable them to make decisions, and know how to amend the systems should the needs of the market change. Consequently, this aspect of user learning about the control systems and knowing how to get the systems back to equilibrium underpins a core requirement of a new process methodology to design a governance information system (GOVIS).

This research involved the development of a new process methodology to design and develop Governance Information Systems (GOVIS) for a board of directors, specifically NGO boards whose positions are filled by part-time, voluntary,



non-executive directors in the majority. In the non-profit literature, a key parameter of board performance is how it is being informed (Chait et al, 1991; Oster and O'Regan, 2002), thus reinforcing the importance of a governance infrastructure in enabling better decision making; of which GOVIS plays an important role. Schools, hospitals, productivity councils, supervising bodies of engineering suppliers, social welfare institutions would be examples of such NGOs. NGOs are inherently more difficult to govern, as the means of control are not as explicit as publicly listed organisations where profit could exemplify the overall control indicator (Simons, 1995; Taylor, Chait, Holland; 1999). For NGOs, profits are not distributed to the directors and they are not owners, just agents of owners. In the empirical economics literature in particular, there has been little attention paid to non-profit making organisations and the support systems for self-governance, despite the heightened role of governance (Hansmann, 1980; Oster and O'Regan, 2002).

Hong Kong has one of the most dynamic environments in the world given it is the hub for various types of industries for Southern China – from construction to telecommunications to services. In keeping with a global calling for better self-governance, the Hong Kong Government and various NGO oversight bodies have begun to devolve more authority to their organisations. The NGOs, mainly not-for-profit organisations, were given many opportunities for self-control and self-governance. The NGO sector in Hong Kong was undergoing tremendous change. Therefore, Hong Kong was an ideal test site for this research.

Governance over NGOs in Hong Kong is comparative more complex than publicly listed organisations due to a host of historical reasons -- from unclear mandates, multiple stakeholders on NGO boards, general lack of funding, to the voluntary nature of directors on the board (SWD, 2000; APPC, 2002). This is



reinforced by a comparatively lower level of transparency, a heavier advisory role for the NGO board which is comprised mainly of non-experts in the trade, fewer formal requirements for checks and balances, and an expectation that the government would ultimately be held accountable for any lack of oversight. The majority of the NGOs in the social service sectors were funded directly by the Government and input controls were used in the past such that risks, as well as innovation, were kept at bay (SWD, 2000). The Government controlled literally everything, sometimes 100% of the operating budget, from how much an NGO could spend, how much they could charge out their services, and what they could pay their employees. The directors of the NGO boards were invited to act as advisors, not directors. However, that was in the past.

### **5.1.1 The Context of NGO Corporate Governance in Hong Kong**

Corporate governance has been considered by the Financial Secretary of the Hong Kong SAR Government as one area that needs major improvement (HKSAR, 2001). Corporate governance of publicly listed companies, private companies, and even NGOs in particular, needed much more structural development and a framework with which to help these organisations to sustain themselves in the long run (Cheng, 2002; SME, 2001). However, the piecemeal recommendations introduced and endorsed by the local governance advisory institutions such as the Hong Kong Stock Exchange, the Social Welfare Department (SWD), or the SME Committee have had difficulties convincing organisations to adopt structural governance changes purely from a conformance perspective. More importantly, the government had just begun to transfer its governance role to the board of each NGO as a result of public sector reforms during the late nineties. Nevertheless, NGO boards in particular have been



reluctant to accept higher level of accountability due to the immaturity of the governance system in place at that time. Recommendations such as the introduction of audit committees have failed to take on by the majority because the structural changes to the current governance system was absent (SWD, 2000; Li, 2001; Ho, 2002). Only the large and visible organisations were willing to develop new systems to experiment with higher levels of governance (APPC, 2002).

In the NGO sector, the Hong Kong SAR Government had decided to push accountability explicitly to the board of directors and had delegated much authority to the NGOs through a block grant scheme. Shifting the burden of governance from the government to the NGOs' board of directors was a policy change. After a series of consultations and amendments, the Lump Sum Grant (LSG) scheme was formally introduced by government on 1 January 2001 (with piecemeal introduction since 1999). Reportedly, there were over 126 NGOs<sup>1</sup> that had accepted and adapted to this new subvention system. Under the scheme, the government would provide to the NGO a lump sum subvention for three major cost components with social services, namely personal emoluments, provident fund, and other administrative charges. Formerly input controls on these parameters would be gradually lifted and the board and management of the NGO would be held accountable and responsible for the oversight, management, and service delivery.

In turn, the LSG system provides each NGO the flexibility in controlling its own staffing structure, service delivery, processes, internal reporting requirements, and fund deployment, as the government would no longer be involved in setting these parameters for NGOs. Instead, the government would present performance contracts to NGO sponsoring organisations such as the Hong Kong Council of Social Service



(HKCSS), the Hong Kong Productivity Council (HKPC) that oversees engineering support and consultancy to the industries in Hong Kong, and directly to large NGOs. The performance contracts would have in them stringent targets and standards for compliance whereby those not meeting such standards would forgo their contract or risk losing future contracts.

As the NGOs became more self-accountable, they needed to begin to consider a host of new governance arrangements and infrastructure for self-governance. This inevitably affected the NGO's early warning system, known as the Service Performance Monitoring Systems (SPMS) and its compliance and the system acted as the performance contract system. Some NGOs needed to introduce organisational self-assessment and higher levels of internal control. At the board level, the board understood that any system that is introduced at the governance level would have a knock-on effect on other systems in the organisation. The need to define a corporate governance framework for NGOs from a cybernetic perspective became evident. Even for-profits echoed the need for a simple homeostasis, a cybernetic system in balance that is (Greenspan, 2002).

A number of issues surfaced during the introduction of the LSG. These issues had included, inter alia:

- A calling for a higher level of accountability and transparency in general, and more specifically, into how cases are handled, documented, and recorded by the servicing agency;
- Being more business-like while at the same time required to be more equalitarian and equitable on which social welfare is based;

---

<sup>1</sup> According to official HKCSS statistics, there are 327 subvented and registered NGOs in Hong Kong as of December 2002.



- Limited room for manoeuvring as most NGOs in Hong Kong were in their third year of the Lump Sum Grant Scheme as of 2002, where there is no tie-over grant and the NGO must cut costs to balance their budget by 2005; and
- The absence of separate internal auditing functions for most of these NGOs which could provide an independent assessment of efficiency and delivery to Funding Service Agreement (FSA).

It is with these understandings that a contingency approach towards change at the governance level was needed to address properly the context cited above. A number of factors stood in the process of change and which unresolved, would deter the successful transition from one of “monitored governance” to “self-governance.”

These included:

- 1 The historical characteristics of the NGO Boards in Hong Kong, which have often relied on the Hong Kong government for final decision and oversight;
- 2 The new and uncertain roles and responsibilities of Hong Kong NGO Boards under LSG (SWD, 6/2002);
- 3 The voluntary, part-time, and non-executive directors and how such advisors would interact with paid, full-time, executives leading each of the services provided by the NGO;
- 4 The governance and management practices in NGOs and how these combined functions were operationalized between the Chief Executive (CE) and his management team;
- 5 The varied expectations of the directors in response to the changing operating environment and the rising public expectations for NGOs;



- 6 The changing definitions of and varied perspectives on effective governance for NGOs;
- 7 The willingness of directors to learn and acquire new competencies in corporate governance and the use and application of GOVIS;
- 8 The new organisational decision-making structure due to the change in the oversight role of the NGO board;
- 9 The maturity, age, size of the underlying complex organisational and management systems; and
- 10 The type of remedial measures introduced and the extent of changes to their current information support system.

Corporate governance is about viability, sustainability, and managing risks in a systemic and systematic manner (Monks and Minow, 2001; Tricker, 2000, Li, 2001). The organisations in Hong Kong, whether they were for-profits or not-for-profits, were facing an increasingly turbulent environment coupled with increased pressure to improve their governance, however defined (SWD, 6/2002, APPC, 2002). They needed to adapt to these challenges by taking on board new governance systems, processes, and methodologies to raise their level of corporate governance while at the same time strengthening their management and product and service bases. The rules of business and commerce had been undergoing a process of globalisation, standardisation, and accountability (Cadbury, 2002). As such, NGOs must raise their level of corporate governance and instil a culture that promoted accountability while at the same time be entrepreneurial, innovative, and adaptive to the changing market and societal conditions. For small and medium NGOs especially, they needed to understand, apply, and establish governance standards and practices that could be on par with the world albeit with less resources than their larger brethrens (SME



Committee, 2001). For example, due to economies of scale large NGOs with multiple service centres and staff count over a thousand could afford to employ an internal auditor, which was considered as an essential element for good governance (SWD, 6/2002). Small to medium NGOs (under 500 employees) could not afford an internal auditor and the idea of sharing such professional across similar organisations raised the possibility of NGO mergers and this topic was considered taboo by some of the boards (Cheng, 2002; Ho, 2002; APPC, 2002).

### **5.1.2 Related Issues in NGO Governance**

Several notable issues related to governance surfaced during the course of this research and through action research studies, the research engineer identified these as:

- The need for a cybernetic perspective which was identified through the literature review and the initial cases;
- The need to help directors understand such perspectives so they may learn to apply proper governance in their organisations; and
- The establishment of stronger information support to enhance decision-making, such as the development and installation of a top-level governance information system.

Central to proper governance is the study of cybernetics, or the systematic control and communication of key information to the board of directors (Beer, 1985; Davenport and Prusak, 1998; Tricker, 2000; Turnbull, 1997a, b; Simons, 1995). The flow diagrams and the parameters with which information would be presented to the board would form the control landscape or dimension of a particular board. Identifying this landscape however necessitated action research studies, as this



landscape would set the context for governance consideration. Gaining sufficient access to boards has been difficult and conducting large-scale experiment even more so due to the sensitive and opaque nature of most boards (Stiles and Taylor, 2001). Having worked with board of directors in the governance areas, the research engineer was selected by the Hong Kong Government and various boards to assist them in improving governance. With such opportunities, the research engineer was able to conduct several action studies to gain a better understanding of the resistances that had prevented effective governance from taking place within NGOs.

Another issue with corporate governance was that many directors had perceived corporate governance to be dealing only with compliance to regulatory requirements and audit integrity, and not about the long-term sustainability of the performance of their organisation that is the true definition of corporate governance (Tricker, 2002; Ho, 2002). Changing the mindset would not be easy and would require substantial investment in the training of directors, promotion of such ideas, and commitment on their part. Within the subject of corporate governance, the training of directors, especially that in NGOs, on how to improve corporate governance has been a major hurdle. Most NGO directors in Hong Kong did not believe they needed to learn anything more about governance, having been in management for the better parts of their working years; or did not want to know how they might acquire such knowledge through directed, team-based learning (SWD, 2002). It was likely that they would be much more acceptable to learning through a problem-based context as experienced by their organisation, and would use their vast experience to frame the problem. Thus, how directors opted to learn these new subject matters would underpin one part of this research. Standard classroom based learning was deemed to be inappropriate. With the advent of technology making



feasible the launching of e-learning courses more inexpensively than through live facilitators, exploring e-learning alternatives also became an area of exploration.

Finally, accepting the installation of a new information support system and mechanism for better governance would be one of the most difficult hurdles to overcome. Many NGO boards are still paper-based, formal, power-centric, and reluctant to learn about information technology (Gable, 1994; Cheng, 2002; Ho, 2002). Collectively, since the directors are collectively responsible, directors on the same board must be convinced that a GOVIS would improve their organisation's sustainability and that they could develop their own set of governance control parameters to monitor deviation. Most importantly, these directors must come to accept that their current system of governance was inadequate in the first place. This acknowledgement would be difficult for many, due to the "face" issue as many were appointed as directors due to supposedly their competence as directors and managers (Ho, 2002). The board of directors of the NGO is ultimately responsible for raising the organisations' level of governance (SWD, 2002). Unless these boards come to understand, believe in the change process, and buy-in to the benefits, no amount of tools or structure however well intended would generate this acceptance. Having an oversight system in place but not specifying a monitor or adjustor to ensure its continual alignment with organisational goal will not solve the problem. The board needs to be self-balancing. Hence, helping them to become more aware and persuading them to accept a self-governance structure over their present set, clarifying their new roles, and defining a system monitor would be crucial to the effort.



### **5.1.3 The Main Theme**

With this as a background, the issues culminated into this main question – how can system engineers design an information control system, GOVIS, for the highest level of an organisation and introduce this through a new process and change methodology that has taken into considerations corporate governance practices for NGO boards? Broadly speaking, how would the system incorporate the inevitable elements of change at both the governance and management levels (Burke, 1994)? A solution to these problems could be an appropriate information systems design methodology. This methodology would involve helping directors to accept their new governance system, to use, to learn from, and interpret critical control information from themselves. This became the problem that the research engineer had spent nearly five years researching.

### **5.1.4 The Structure and Deliverables of the Research**

The overall research scope was to assist the board to change and raise their level of self-governance. To do this, the board needs to be clear on what are their roles and functions, then, develop a governance infrastructure which would frame the information system deliverables. This process of development and change from role identification to system design will be developed through a new process methodology called the governance information systems development, enhancement, and review (GISDER) methodology and this is the final deliverable of the research.

The research deliverables took the research engineer five years to develop, refine, test, and put into operation. The work undertaken has extended the business areas of the research engineer's Company and built a new product offering which has



become a main stay of the Company's delivery line in governance consultancy. The deliverables also improved the governance of the organisations studied and depending on the actual scope, moved these organisations closer to having their own GOVIS.

### **5.1.5 The Research Engineer's Contribution**

The contributions by the research engineers included the GISDER methodology, (the Management Audit System derived from GISDER), and the manner in which a collection of management tools are integrated and applied in bringing about a GOVIS. GISDER aids the directors by helping them think and implement governance through a systematic and structured manner. By applying GISDER, one can devise a GOVIS. Constructs of GOVIS, also known as the control dimensions and which were socially constructed and decided by the Board, are applied collectively, thereby enhancing governance from the perspective of the board and the society in which the agency operates. These are the outcomes of the contributions.

Following on from above, nine more control dimensions were identified by the research engineers for these NGOs through a structured research program. Although the basis of research was mainly NGOs in the social services sector in Hong Kong, the constructs were developed with two principals in mind (TQM and Minimum Control). These principals are universal, thus the constructs can be made applicable to other industries that also have such principals in practice.

### **5.1.6 Reading Order of the Submissions**

In order to understand properly the context and the various elements pertinent to the study, readers are advised to follow an order of reading. This order of reading,



1. This innovation report, which provides the framework to the study;
2. The research engineer's profile<sup>2</sup>;
3. The literature review -- A pre and post review of the literature and available product offerings in the market behind the key themes<sup>3</sup>;
4. The action research submissions, which provide the primary data that led to the development of the control dimensions from 6 to 12, then to the present 15 dimensions and initial version of the process methodology. The cases explored 32 NGOs in total and should be read in this order as each case is built upon the previous learning:
  - a. Submission on "The Roles of the School Manager under School-Based Management";
  - b. Submission on the governance review of a hospital group, entitled "Rebuilding the Board";
  - c. Submission on the governance and management review of a large NGO, entitled "The NGO Board from the Perspective of Beer's VSM."
5. The submission on the investigative research of the critical control components for NGOs which provided insight and clarity for some of the components, entitled "Investigative Research of Core Components of CG for NGOs"; and

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<sup>2</sup> The submission is entitled "Personal Profile of Mr. Gregg Li, Research Engineer." Oct 30, 2002.

<sup>3</sup> The submission is entitled "A Review of the Literature on Learning and Structuring Governance Information Systems for Board of Directors of NGOs." Summer 2002.



6. The methodology submission that outlined GISDER in detail, entitled "Governance Information Systems Development, Enhancement, and Review Methodology (GISDER); and
7. "An Interim Report on the Development and Demonstration of the New Management Audit System for NGOs using the GISDER Methodology" by 10 NGOs, with each system based on a level of board participation.

The research engineer mapped out a blueprint of actions that would help directors understand where they were, where they wanted to be, and how far were the gaps between the two. For the solution to be applicable, key areas of the problem situations needed to be addressed. For example, having developed the process methodology but not the system to teach directors how to employ the methodology would not be realistic or feasible. Hence, the project work consisted of a number of "integrated" deliverables:

1. The development of a methodology to identify the critical control components (or parameters) for the board of directors of NGOs taking into account the working nature of the board of directors;
2. A three-tiered "step-wise" framework, called the "control dimensions", which outlines the ladder in which three levels of governance are designed and used based on the maturity, size, and complexity of the organisation;
3. A learning process with which the directors would jointly develop their own set of critical control parameters, based on the reference set of control parameters. This process is called the "Control Roundtable" or "Mentor's Roundtable";



4. A self-assessment instrument with a workbook, called the Guidelines for Development for NGOs, using the control dimension as a reference;
5. A self-assessment instrument for the Management Audit System, for the purpose of identifying relevant components and for identifying the initial governance priorities for change<sup>4</sup>;
6. A one-day training course, with all training materials, for the NGOs and directors on how to implement and enhance their current system.

The deliverables were designed such that they could be reused and with learning reapplied in the development of other subsystems. Directors would be taught how to do these systems. Hence, this project involved the development of an infrastructure that would include assessment and training that would bring about an improved level of corporate governance, and not just raising implicit acknowledgement. This should improve effectiveness.

Any commercial products that would be developed should fulfil the reuse criterion stated above and could be used independently by the NGOs themselves with minimal support. Finally, all these deliverables would be combined and leveraged to form the new “Corporate Governance Assessment Service” that could be administered by the client at a cost-recovery basis, thus sustaining the service once it had been established.

As the focus of the research became clearer, two submissions were dropped. They were no longer appropriate because of the development of the project towards a much narrower perspective:

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<sup>3</sup> The mentor’s roundtable, the Guidelines to Development, and the Assessment Template all appear in the appendix section of the last submission, “An Interim Report on the Development and Acceptance of a New Management Audit System.”



1. "An integration of team learning and e-learning at IBM China/HK". The case involved the headquarters of one of the largest information systems and technology corporations in the world and discussed the difficulties and possibilities of designing learning methodologies for senior staff. It was hoped new insights could be gained that would be applied to helping directors to learn.

2. "The creation and evolution of an action learning training program and its transformation into an e-learning program for management consultants". The target recipient group had changed from management consultants to directors. Originally, it was anticipated that management consultants would deliver the corporate governance system.



## 6 The Research

### 6.1 *Key Issues in Corporate Governance, Cybernetics, and Information Control Systems*

The purpose of this section is to provide an overview of the key issues in corporate governance, cybernetics, information control systems, and information systems development methodologies, and to provide a short review of the pertinent literature. This section examined the key basic ideas, models, relationship, research, and methodologies that the current management literatures had recommended for the building, implementation, and the control of information to bring about cybernetic-like control systems within organisations.

Despite such a large range of topics, the field of information systems development at the governance level was just beginning to take root in the late nineties, due primarily to research, adaptation of corporate governance practices, and problems associated with governance, brought about by notable cases such as Enron and WorldCom (IT Governance, 2002; Cadbury, 2002). There was a limited body of applied application, models, methodologies, and case materials on structuring information control systems and architecture for the purpose of performance and conformance (Oliver, Kelliher, and Keegan, 1997; Wilson, 2000; Tricker, 2002); and a part of the reason was the immaturity of governance best practices. The need was not as explicit for GOVIS in many organisations and for NGOs in Hong Kong, this need had a much lower priority until recently. Overall, research thus far had not focused on an information systems process methodology that would be reliant upon a cybernetic control framework in the development of governance information system.



## **6.2 Definition of Corporate Governance as a Cybernetic System**

Cybernetics is concerned with information and control architecture. Corporate governance is concerned with the systems of governance exercised over the organisation (Tricker, 1984). The idea of seeing corporate governance through a systems approach was first alluded to by Stafford Beer (1966, 1981, 1985, 2000), then later supported by the work of Tricker (1984, 1994, 2002), Simons at Harvard (1995), and until more recently, specifically by Shaun Turnbull (1997a, b) in Australia who linked cybernetics to governance. In 1997, Turnbull asserted "the cybernetic perspective provides a basis for evaluating the integrity of corporate governance information and control systems from a number of aspects" (Turnbull, 1997b, 430).

Conforth in her research in corporate governance also confirmed that a researcher should look at an organisation other than a linear perspective, and although not calling it the systematic review, she used the term "paradoxes" as many theories about organisations simply do not match the complexity faced by the organisations (Conforth, 2002).

The theory and practices of self-regulation and self-governance had been a central theme of cybernetics and had been in use since when governors were used in the 19<sup>th</sup> century to control the speed of steam engines; but little since then had translated into social control systems (Turnbull, 1997b, 434). Much more research and investigation would be needed to expand on the setup of this self-regulating system, known as "a homeostat", that could be sustained without outside government intervention and which would provide operating advantages, asserted Turnbull. In essence, a board of directors could be seen as a homeostatic entity, having a combination of elements and when properly combined, would enable the board to



sustain itself. In fact, this combination of elements would form the governance infrastructure that would be expanded upon later. A proper board should not self-destruct (as in the case of Enron).

Stafford Beer linked cybernetics and governance in his own lucid way and described an enterprise as an organic whole, “a homeostat built on homeostats” and that organisations had layers to filter information from one layer to the next or the variety would inundate the system (Beer, 2000). At the highest level would be the board of directors and would act as the final ‘adjustors’ to oversee and steer the organisation (Beer, 1966, 371). However, he also saw that the assumptions behind cybernetics as it applied to enterprises was that the mandatory approach to control would declare self-adjusting mechanisms as too slow, too arbitrary, and likely to incur short term disequilibria. Beer saw that natural systems could endure the hiccups, but not young inanimate [economic] systems where such disequilibria could lead to unemployment and social injustice of all kinds (Beer, 1966, 372). He foresaw some type of intervention that could provide a faster, quicker response. An important assertion by Beer was that a mandatory system could be de-stabilising:

*“On the contrary, [the mandatory system] may become so powerful that it overrules the self-organizing homeostats of the subsystems altogether, so that they become denatured. If this happens, the control will fail: because it cannot supply requisite variety without this aid.  
(Beer, 1966, 374)*

Beer saw the parallels between organic systems and the top tier governance system, but he also saw the set of partial systems which though initially appropriate



at one level, would be completely inappropriate or even self-defeating at a higher, meta-level. The mandatory scheme of control in place often relied on partial models. At the time of Beer's writing, he wrote, "It remains to specify a model of higher order, based on an integral notion of what constitutes a self-organizing system" (Beer, 1966, 377-378). His writing encouraged the development of a meta-system (which would be the board of directors) that could become a 'working' homeostat through the setup of a large number of systems that are richly interrelated, similar to how a central nervous system would be connected to the brain. By assertion, this would mean the meta-system might be supported with a different set of systems than management. Beer further asserted that success would depend on the existence of such systems and how such systems could be interpreted by senior management (Beer, 1966, 382).

It was not until Turnbull that the link with cybernetics and corporate governance was made in stronger terms. Turnbull's recent work used cybernetics to describe the systems of governance from a stakeholder's perspective that involved many more participants than the board of directors and sometimes included the adding of a supervising board. He advocated a separate advisory board for each significant stakeholder constituency. He referenced Ashby's law of requisite variety by stating that no living thing or organisation could survive and grow unless it had sufficient variety in its information and control system to cope with the diversity of the environment. This meant that as the meta-system, the board of directors must itself contain sufficient variety in order to comprehend the diversity in the environment. Turnbull even referenced a discussion he had with Stafford Beer in 1996, that information theory had not been applied to evaluate corporate governance or the operations of compound boards (Turnbull, 1997b, 432). Accordingly, the ability of the control centre to regulate in a timely manner could be improved by expanding its



information channels (Ashby, 1968; Turnbull, 1997a, 11). He concluded that a stakeholder board would give it the necessary levels of variety thus providing it with the basis for improving self-regulation, and therefore reduce the need for regulation by an outside party. Turnbull was probably the first individual to argue for the establishment of formal cybernetic systems as a better way than regulation to regulate firms in the most efficient way at the governance level (Turnbull, 1997a, 21). At one point, he even supported having a second board to oversee the first, that a unitary board lacked the capabilities of those with compound boards (Turnbull, 1997a). This author proposes the problem lie in the unitary board's insufficient or inadequate control system, and not on expanding the board to a stakeholder basis or by adding another board on top of the current one.

Others such as Ackoff (1972, 1999) cited a systems approach to management, not governance, but his version of the biological model of management was still based on the idea that top executives would make all the key decisions but would allow their subordinates to create living like organisms (Ackoff and Emery, 1972). Other researchers of corporate governance, Neubauer and Lank (1998) in particular, also alluded to corporate governance as a system, a sustainable system, in their work about family governance. They saw corporate governance as a system of structures and processes to secure the economic viability as well as the legitimacy of the corporation. Viability, they further argued, meant the long-term sustainability of the corporation while legitimacy refers to the acceptance by the society, or, the environment which the organisation must adapt. The concept of corporate governance as a system was explicitly referenced by Cadbury according to Neubauer and Lank, 'Corporate governance is the system by which companies are directed and controlled' (Cadbury,



1992). Expanding this concept further, we would end up with a new system definition of corporate governance as,

*"A system of structures and processes to direct and control corporations and to account for them"* (Neubauer and Lank, 1998, 60).

To understand properly what corporate governance is, we needed to distinguish directing from management in the above quote. Directing should purposely define distinctively from management, which meant the day-to-day operational work done by paid staff. NGO directors noticeably are volunteers, part-timers and typically do not receive a salary for their efforts. They are engaged in their own day-to-day work. The work of the directors is distinctively different from those of management. Directing involved shaping the direction of the firm in the long run, making long-term decisions, involving themselves in far-reaching activities - - such as relocating the headquarters or making multimillion-dollar acquisitions, or involving in decisions that were precedent setting and were difficult to reverse. In either the "for-profit" or "not-for-profit" world, the board acts as an imperfect solution to the agency problem described by Fama and Jensen, where managers may not act fully in the interest of the stakeholders (Fama and Jensen, 1983; Holmstrom, 1999). The board has a role to play and this is distinctively different from management. In for-profit organisations where mergers are structurally possible due to clear ownership, the incentive to conduct proper oversight over management by the board has been one deterrent against abuse (Cadbury, 2002). With unclear ownership and an absence of take-over and mergers in the NGO sector, the board's mandate to curb managerial abuses is even less pronounced (Oster and O'Regan, 2002).



Understanding corporate governance as a cybernetic system was important in the following aspects. First, cybernetics demonstrated that double feedback mechanisms, which were two distinguishable feedback cycles, were an essential feature for self-regulation of an organisation (Williamson, 1985:282). In reality, this has meant the development of additional feedback channels that can bypass the management filter, getting information directly from customers and staff to the board. Indeed, this was what the action research cases helped to identify. Williamson implied that the board needed more than one simple set of feedback. Ideally, boards should have adequate systems of feedback so that they can be self-regulating and to do so without interference from outside regulators. Control without learning may improve performance briefly, but will not eliminate repetition of mistakes (Ackoff, 1999). Directors must be put in positions where they can learn to learn (Bateson, 1972; Argyris, and Schon, 1974, 1978). To do this, a board must be able to provide quick-response error detection and more importantly, error rectification when something had gone astray (Beer, 1966; Turnbull, 1997). The controllers must understand how to interpret the feedback information (Beer, 1966; Simons, 1995). This presumed ability was central to this author's research which did not take the board's ability to identify and rectify error as a given. In operational terms, this had meant that "Willing to learn" and "willing to attend meetings" would inevitably become necessary competency requirements for directors.

Secondly, every system had properties that its parts do not possess and it was the systematic properties that had been difficult to define and measure. This is one of the reasons for applying a system view of the governance infrastructure and the interrelationship each of the sub-systems has on the other. Further, the meta-system of control would need to have a central nervous system linked to the various complex



subsystems in order to handle the variety (Ashby, 1968; Beer, 1966; Ackoff, 1972; Lee, Shiba, Wood, 1999). Any infrastructure (defined as system of subsystems) in place must be able to adapt to the changing environment. As such, this would imply the importance placed on the interrelationship between the subsystems as sometimes strengthening one aspect might weaken other subsystems unknowingly. The meta-system would probably have the characteristics of an adaptive complex system to match the complex environment. Ackoff called this "the management learning and adaptation system" (Ackoff, 1999, 158).

Finally, as in all systems, the type of interactions among the parts was central and the management of the interactions among the parts would be a core concern. The process of interaction, such as the management of board meetings itself or understanding the roles and responsibilities of the directors would be relevant. This author concluded in the research that the board must purposely discuss and identify these many difficult-to-measure systematic variables, to bring them out in the open. Moreover, the board must specifically identify a monitor to evaluate the continual robustness of the governance system in order to be self-regulating. As such, the directors themselves must be warned about discrepancies through feedback systems in place, must learn to read and interpret any disequilibrium, and spend the time to correct such deviation, to an extent that the process should be integrated into the design of the governance information system.

However, even with all this, total control is an illusion. There is too much variety in the environment for any part-time non-executive to master (Ashby, 1968). A finding from the action research was that the strength of the viability of the system would lie in the ability of the board to regain control when something had gone astray. Some authors would even refer to this as the essence of governance (Business Week,



2002). Inability to control everything was a given. The strength of the system is actually its ability to regain control. In other words, by how much the board was able to intervene such that the organisation could be put back on track. Therefore, the ability of the board to understand the extent of risks that could not be controlled would form a basic principle for the development of the critical control components for each of the organisation.

These characteristics and their research foundation have formed the principles which guided how this research was undertaken. Effective corporate governance requires an effective board of directors. Boards need to be self-regulating, self-learning, and be guided by the principles of cybernetics. Control at the board level would be linked to various subsystems and needs to be designed such that it could handle the variety presented by the chaotic environment. Frequent review of current status would probably be needed to improve adaptive-ness. The board needs to be able to interpret new information from the environment and be managed in such a way that discussions are meaningful and value-added. Moreover, an effective board would be one that could anticipate risks through a dedicated monitor and could regain control when something had gone astray.

Research by Conforth and LeBlanc further pointed to the relevance of using processes to evaluate board effectiveness. Conforth conducting cases research on NGO found that the contribution of board structure and processes had a positive effect on board effectiveness. Organisational sizes do matter in terms of the ability to recruit new members, raise funds (Conforth, 2000, 2001). LeBlanc in a separate study for for-profit boards, concluded that improving processes will not only improve board effectiveness; but will also improve financial performance (LeBlanc and Gillies, 2003). The implication for NGO is strong. Research by Conforth argued for more



cases to be reviewed, to identify the impact of size on board processes. The work by LeBlanc and Gillies suggest that that by clarifying what boards should be doing and helping them understand these roles, there implicitly should be a positive correlation to performance. Their research contributions were considered in the context of building the process for control, the control dimensions or constructs.

One way of enhancing board effectiveness is to help them combine the processes and the information systems through a phased methodology. Identifying the main constructs behind NGO governance and developing a process methodology that can be used to develop a governance information system taking account of the governance infrastructure became the aims of the researcher.

### **6.2.1 Definition of Corporate Governance with Consideration for Risks**

Underpinning GISDER is the foundation in corporate governance and risk management. For the purposes of this working document, corporate governance will be defined as follows:

*“Corporate governance is the organisational architecture - consisting of systems, policies, and procedures - that allows and encourages an organisation to prosper and grow. It is the set of management systems that allows the enterprise to sustain itself over time. To do so requires finding the balance between performance and conformance, between control and flexibility, and between taking opportunities and managing risks.”*



One of the most important roles of the governing body is to ensure management manages risks in an appropriate manner and that the enterprise is not exposed to unreasonable risks that would undermine its sustainability. There are many definitions of risks. The origin of the term “risk management” is not clear, but it has tended to imply an element of insurability. For the purpose of this working document, risk management will be defined as:

*“Interdisciplinary function that is concerned with the management of (largely) insurable risks...which are confined to pure risks or risks where there is only a chance of loss and no chance of gain. Either nothing will happen or a loss will occur (Yeung and Tippins, 2001, 7).”*

The concern with risks is important because of its impact on the business mission. A general definition of risk focussed towards the business mission is the variation in outcomes around an expectation. According to Yeung and Tippins, this definition implies that risk has to do with variability, directors’ expectations, and with the relationship between the things we expect to happen and the things that actually do occur. Contrasting this with uncertainty, which is really a state of mind where uncertainty can be defined as “*doubt about our ability to know*,” we can see that risk is really about a state of nature (Yeung and Tippins, 2001). The research engineer used these working definitions in the risks component and in the process methodology.

In the areas of corporate governance, research around risks can be traced to agency risks (Jensen & Meckling, 1976), business risks (Barney and Ouchi, 1986), and tasks uncertainty (Galbraith, 1973). In practice, the first has meant the probability that management would take actions contrary to the wishes of the board. Business

risks were defined as the uncertainty associated with obtaining returns in a competitive environment. Task uncertainty comes into play when the gap between information necessary to make effective decisions and the information already possessed by the decision maker is uncertain.

Together, the values, definitions, assumptions, would come together to form the philosophical framework behind this new methodology for the design and development of a governance information system for NGOs.

### **6.3 *Introduction to the Problem Situation***

A board of directors is a self-contained system. It is a system owned by the shareholders, operated in a fiduciary relationship by directors, with a sole purpose to manage the direction of the organisational systems such that the organisation can be sustained and the value of the shareholding is enhanced. This is done through a balance between control and performance development in the organisation that it oversees.

Understanding the nature and boundaries of control and risks from the perspective of the board (and thereby setting the framework with which to design the corresponding information control system) are a core requirement for systems developers. However, gathering such information from the directors automatically assumed that the boards knew what they wanted within a complex environment. It assumed that such information would not change over time. It also assumed that the identification of Critical Success Factors (CSF) (Rockart, 1979) was being done and which would help identify the control needs. These assumptions were invalid, as the research would show.



One of the main roles of the board is monitoring the work of management, both from short-term and long-term perspectives. Auditing the work of management is difficult unless there is a system of management audits and that the board clearly understands the boundary between its long-term perspective and its respective role from those of management. Contrast the two perspectives and the longer-term would stand out as the most important view that the board would need to have. Monitoring, historically meant the monitoring of financial indicators, had now encompassed a whole range of non-financial indicators from the board's perspective (Tricker, 2000; Kaplan and Norton, 1992; Simons, 1995). From a governance point of view, the board should be more concerned with long-term information and information which would have a longer-term implication (such as the sale of properties). However, some of the cases conducted by the research engineer would indicate that in NGO boards in Hong Kong, many boards only played a low-level oversight role, dotting the 'I's' and crossing the 'T's in contract agreements; and not one of directional monitoring. Senior management was asked to harbour both short and long-term perspective. In other words, management was asked to be governors and this implicitly implied that governance would be in place when management was effective.

Nevertheless, this phenomenon is not unexpected. Strategic monitoring elsewhere which had been the remit of the board had tended to be done by the Chief Executive who acted as the captain of the ship. He used short-term information to steer the ship. Sometimes the direction was not balanced with long-term perspective and oversight. To support his claim, Wilson cited a study by Horovitz done in 1979 which supported this (Wilson, 2000). The study was conducted in UK, Federal Republic of Germany, and France and found that the content of monthly reports supplied to the chief executives was heavily biased towards short-term information.

This is not surprising given the role of the Chief Executive (CE) is to steer the ship on a daily basis. Comparatively speaking, the direction of the ship, speed, and condition are monitored by the board not sitting on the ship but probably somewhere else.

Effective governance would mean the ultimate destination and general direction of the ship should be monitored through a balanced view about the long-term implication at the board level. Moreover, such a role would require a different set of information not present in the current short-term systems. The research engineer found in one of the case studies<sup>5</sup> that all the monthly reporting numbers to the boards were literally the same or a sanitised set of the short-term numbers used by management. In effect, for this case the board was using the same set of performance metrics as seen by their management for short-term management. Long-term output or outcome-based performance indicators were in short supply.

Are we seeing situations where the roles of management and the roles of governance were deemed the same? Alternatively, was this a reflection of a situation where management was actually controlling the board by controlling the type, level, and amount of information provided to the board members? Alternatively, are we seeing instances where the Chief Executive with a long-term perspective has provided one of the most effective means of governance, on behalf of the board? The research engineer was uncertain at this stage. However, the research engineer was beginning to sense that these and other situations would provide the problem situations for this research.

A board is a conscious team of directors. From a board of directors' perspective, this would suggest that the effective self-governing board should be an

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<sup>5</sup> The Submission entitled "The NGO Board from the Perspective of Beer's VSM."



adaptive system, capable of redefining or reconstructing its nature or purpose of an organisation. The board must have a system in place to learn. *“Level 5 systems are self-constructing and self-organising, guided by terminal goals and purposes that are, at least to some extent, of their own creation”* (De Smet, 1998, 15). This would run parallel to Argyris’ double-loop learning which would question the underlying construct of an organisation (Argyris, 1994). As a purposeful system, the board can learn and unlearn as well (Ackoff, 1999). From this, we can further suggest that the board must create its own governance information system and use it as an instrument of learning for them. By monitoring the value creation of an organisation on a regular basis, whether it is for-profit or not-for-profit, the board of directors implicitly would be evaluating the level of value surpluses that can be used not only to sustain the organisation, but also to enrich and deliver on its purpose. This learning aspect is in fact a key and absolute role of a board of directors that is supposed to be self-governing and self-organising.

## **6.4 The Problem Statement**

With this as a background, it appeared that many of the board of directors of NGOs did not have the systems in which effective governance could be performed. Information at the governance level was not available. One could say that directors had never been in “absolute” control, otherwise, decisions would be made at snail pace as directors only often meet infrequently (Anthony and Govindarajan, 1998; Simons, 1995). The control mechanisms in place had given many boards the illusion of control. Unless properly designed and formulated, the governance control system would be unable to provide a remedial feedback system for the board to regain control.

With these perspectives as the background, the problem statement for this research was:

*How can a self-regulating board of directors develop its own information system for managerial oversight?*

The process of development has been a complicated and undocumented process, particularly when the boards themselves have been undergoing changes to its infrastructure – in terms of structure, roles, authority, and functions. To develop an effective means of control, the board should develop its own Critical Control Components (CCCs) that are bound by some dimension of control in keeping with changes to its governance infrastructure.

However, before a process methodology could be developed, the researcher needed to identify the constructs behind effective governance of NGOs. It was presumed that these constructs would probably be different for different maturity of NGOs, as younger NGOs would have much simpler governance infrastructure. These constructs had to be identified first. To allay fear of conflict, such constructs or control components should not be provided by the senior managers but ideally developed through a focused discussion among the directors themselves.

The following section explains how the research was conducted in order to solve the problem as identified. The process of development included the joint development of a working information systems development methodology.



## 6.5 *Construction of the Sampling Frame*

In order to properly identify and build this information systems development methodology, the research engineer structured the research around NGOs in Hong Kong, which historically had been much more difficult to govern due to its voluntary status and lesser reliance on extraneous oversight by others due to a lack of transparency (Cheng, 2002). According to Lam and Perry (2002), the voluntary sector in Hong Kong acted as a buffer against government intervention due to market failures by creating self-governing mechanisms for resolving market imperfections and excesses. Self-governance was an expectation. The timely focus on enhancing self-governance for NGOs by the HKSAR Government provided the proper context in which action research in this area would be possible. Because the research engineer had to deal with a number of boards of directors, where often access to them can and has been very restricted in time and depth and which inevitably constrained the options (Pettigrew, 1985), the research engineer needed a number of boards such that the learning could be additive. The research engineer used a multiple-case approach and gained support through a combination of sources. In all, 42 boards of directors of NGOs were examined over a period of five years. Comparisons across the cases were sometimes difficult due to the different context involved, the underlying governance infrastructure, and the engagement period. The process methodology was developed through piecemeal processes and often these overlapped from one case to the next.

The action research would generate a template that could be inductively applied to other NGOs, and more ambitiously for other types of board as well. To ground the theory, whenever possible, any identified components would be confirmed

through surveys which were sent to other boards outside the sample population (Glaser, 1992).

The sampling frame for this inductive search was constrained by these factors:

1. **Location:** primarily in Hong Kong where physical access could be gained with the boards of directors there. Hong Kong was considered a prime site as the rate of environmental change is one of the highest in the world, due to a number of factors such as high population density, high rate of change, strong technical expertise, high managerial expertise, highly competitive environment, and its international connection to world industries. A request for higher level of self-governance for NGOs by the Hong Kong Government was a key reason (SWD, 2002);

2. **Access:** To gain access, the boards would have to have requested the consultants for assistance. They controlled the key to access. That is, the boards were experiencing turbulence and change and needed the assistance of corporate governance experts to help them identify and resolve some governance situation, where the initial problem might be outside the research question. At times the research question was posed after having answered and resolved other governance related problems; and,

3. **Transparency:** Although many NGOs were much better candidates for the research and often access and permission from the advisory boards and the founder-chairman were the only permission that was needed, meaningful data for cross comparison was difficult to obtain.

Many NGO boards provided input control information only as often



these were required by the government authority. The boards did not need to know about funding adequacy and other constructs for example, as the government would be there with the funding, as long as the input controls were in place (SWD, 2002). Later development gave way to more information that was more output and outcome related as these NGO boards were tasked to be self-governing.

## **6.6     *Methods of Analysis***

Understanding how the boards derived their control system and exercised control would necessitate an action research approach (Gill and Johnson, 1997). Action research on boards of directors, and particularly adopting a system and cybernetic viewpoint had been scarce and the research engineer needed to conduct his own. A number of previous investigative studies in control used questionnaire and many were done before the governance reform initiative under the influential Cadbury report (Mace 1971; Fidler, 1981; Lorsch and MacIver, 1989; Anthony and Govindarajan, 1998). Case development was made more difficult due to access and the board's refusal for publication at the risks of possible legal liability. Overall, "there's been a small body of primary research on boards of directors from which to draw any methodological insight (Stiles and Taylor, 2001; 25)."

A key reason for the difficulty in understanding and building effective GOVIS had been access to the board (Pettigrew, 1985; Tricker, 2000). Access to boards and the high requirement for confidentiality and sensitivity and at the core of power meant securing their cooperation had been difficult. This was made more so when the studies would be documented, thereby raising the level of sensitivity and risks for the boards under study. Boards tended to be populated by a small number of extremely

busy individuals who preferred to remain anonymous and who preferred others to do the work, including asking management to provide the specifications for any governance information system. Directors were not effective respondents and true to Stiles and Taylor's assertion, many directors had even refused to fill out survey questionnaires that the researcher later sent out to validate certain facts. One central problem with research on most boards of directors, that had been done referencing company performance, was that it had been done without the directors themselves (Pettigrew, 1985; Stiles and Taylor, 2001). The board can be a black box.

However, assuming directors were accessible, the research engineer would be faced with another challenge. As the directors were not often professionals in the development of management and information systems methodologies (for example, setting performance indicators or providing the specifications for a CRM) nor kept updated with issues on corporate governance, one could surmise the difficulties of asking the directors to assist in the development of the methodology directly. NGO boards are often staffed with volunteers from all occupations, from homemakers to parents who may not be functional experts in management. The research engineer relied on a few directors who were extremely knowledgeable and they provided the appropriate amount of information for initial development.

To appreciate the extent of the problem in corporate governance, a literature review of all relevant topics in corporate governance, control systems, information systems development, e-learning, concept engineering, training for adults and directors, soft systems engineering, and cybernetics was first conducted. This



followed a comprehensive review of the state of corporate governance in NGOs and other types of organisations.<sup>6</sup>

Four sets of cases were examined – two cases with multiple organisations and two extensively with one organisation. Each one looked slightly at a different aspect of governance and systems development, with an overall aim to identify key variations within and across the cases. Although the process of development varied, the research was additive. The first case involved assisting the Education Department of the HKSAR Government to build the governance templates for 30 school boards throughout Hong Kong. This case involved multiple mini-cases of schools which ranged in size of student body and staff. The second case involved a large hospital with over 3,500 staff and this was to build the infrastructure for information dissemination and decision-making such that governance could be applied for the hospital. The third case involved one of the largest NGOs in Asia with over 10,000 staff and was about the reassessment of governance for an oversight system which the research engineer had helped to design almost ten years ago. The fourth and final case, used for validation purposes in which 10 NGOs were involved, with a staff force ranging from 30 to 500, looked at the overlapping functions between the board and management.

As the action research progressed, a number of patterns emerged and these were matched to various cybernetic control methodologies. The case studies through action research served as a means to identify control components not possible through secondary sources. These components would be structured into an information systems development methodology that directors would be able to consider for themselves. One of the most relevant parameters for measuring NGO board

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<sup>6</sup> Some of the outputs were turned into a Masters Degree level distance-learning course, "Issues of

performance is how information is processed, shared, decided upon, and used (Oster and O'Regan, 2002).

The next section describes how the research engineer overcame these difficulties and pieced together a framework with which a methodology could be built that would enhance the level of governance for NGO boards.

## **6.7     *Action Research Design***

This section describes in detail how the action research was formulated, conducted, and verified.

Action research allowed the research engineer to first define the boundaries of a governance control system, then the building up of the methodology for complex systems through case studies (Mitchell, 1983; Yin, 1989; Eisenhardt, 1989; Pettigrew, 1985). Case studies are often used when a particular problem has been ill structured in the managerial world (Gill and Johnson, 1997). Using action research in the development of information and systems methodologies had been pervasive (Beer, 1966; Yin, 1989; Checkland 1999; Klein and Myers, 1999; Wilson, 2000; Fjermestad and Hiltz, 2001).

Kurt Lewin, one of the original contributors to this approach, emphasized that the research should be focused around loosely defined problems at first, which it would be in this case. He further purported that process generalization could be attained through action research in cases where tensions in social systems could be mitigated by understanding the balance of driving and restraining forces (Burke, 1994; Gill and Johnson, 1997). Checkland called this the "Problem Situation" as it would be premature to define any problem without a consideration of the context (Checkland,

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Corporate Governance" for the Open University of Hong Kong (Li, 2001).



1999). As one of the strategies was to understand the balance between various parameters -- control and exploration, predefined and adaptive information systems, and decision-making and support -- action research was justified. The cases identified were aimed at producing an understanding of the context of the control systems, and how information is processed, shared, decided upon, and used (Oster and O'Regan, 2002).

The action research approach had been appropriate for inductive research, where the methodological implications entailed the avoidance of highly structured approaches to deduction. Contextual and subjective behaviours of the actors would be taken into account; and these could be recorded by the research engineer in the contextual environment (Yin, 1989). The context chosen was the non-profit sector, classified more specifically as NGOs in Hong Kong, and due to the demand for remedial actions to raise their level of governance, gave many opportunities to work with such boards and to develop the control boundaries. In terms of the number of cases needed for theory building, Pettigrew (1988) recommended a number between 4 and 10 polar cases or one multiple mini-cases. With 10 and above, administering the cases would become difficult and the trade-off between time and value would no longer be viable (Mintzberg and McHugh, 1985). The author chose four cases, two of which were multiple mini-cases. The selection of the four set of NGO cases allowed the researcher to control environmental variation, while the focus on different sizes -- small, medium, and large NGO organisations -- provided some latitude to size differences. This mix provided adequate polar extremes while allowing some degree of commonality.

One difficulty with action research is the extrapolation of findings. Generalisation from the findings of one case study is difficult and rarely done, but

does not imply the findings do not have wide application within a specific industry or environment. With four cases, generalisation is much stronger (Pettigrew, 1988). Generalisation can be strengthened by various means. The first is to use multiple sources, that is, by integrating a pilot study, multiple case studies, supported by a survey research for example (Gable, 1994). Following similar research design by Stiles and Taylor (2001), Snow and Thomas (1994) and Lorsch and MacIver (1989) where case studies included questionnaires to expand the depth of information, the author introduced questionnaires in several of the studies at instances where there was an opportunity for doing so. Questionnaires were used in the hospital case in which preliminary control dimensions were solicited; and subsequently in the final case for validation.<sup>7</sup>

Generalisability of the findings can also be enhanced by the process of analysis (Bloor, 1978; Eisenhardt, 1989); in other words, through within cases analysis and if possible, validation by another final case (Bloor, 1978; Gill and Johnson, 1997). The author employed within case analysis and used a final case as a validation case. Finally, by enfolding literature, or examining the literature after the findings, to look for conflicts and similarities, generalisability can also be enhanced (Eisenhardt, 1989). Conflicts would provide new insights while similarities would serve to confirm the constructs. The author conducted a further review of the literature and subsequently redefined one of the constructs.

There are trade-offs in action research nevertheless. Reliability is weaker in action research methodology as findings from the case research are difficult to be replicated by other researchers due to client's subsequent refusal, confidentiality of

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<sup>7</sup> The submission is entitled "Investigative Research of Core Components of Corporate Governance for NGOs".



the data, and more importantly to the context at the time of the case which has invariably changed (Yin, 1989).

Because the research is inductive in nature, the trade-offs were deemed acceptable by the author. Moreover, action research has proven to be a viable approach in developing information systems methodologies (Beer, 1966; Checkland, 1999; Wilson, 2000; Avison and Fitzgerald, 2001; Fjermestad and Hiltz, 2001). Important considerations needed to be noted by the author, particularly when the system in review is a human activity system. In developing the methodology itself from a systems thinking perspective, Checkland further argued that hard systems engineering would need to be modified into soft systems engineering approach for conducting information systems development for human activity systems in a complex world (Checkland, 1981, 1999; Flood and Carlson, 1993; Jackson, 2000). As such, the research engineer's derived methodology, incorporated Checkland's soft system approach (Seven stage model) viewpoint and the Multiview methodology where the five stages of Multiview were the analysis of human activity, information modelling, analysis and design of socio-technical aspects, design of human computer interfaces, and the design of technical aspects (Avison and Fitzgerald, 2001; Avison and Wood, 1986; Checkland and Scholes, 1991).

Through this approach, a theory (the methodology) was slowly "grounded." It was the intent that the methodology could be applicable to other boards such as for-profit SME boards or even larger boards of listed companies, with some modifications, and which therefore could constitute a generalization (Gill and Johnson, 1997; Glaser, 1992). Under the Analytic Induction approach, generalization is possible and valid as this is achieved through the elimination of exceptions and the revising of the hypotheses; and not from the representation of the event through statistical inference

as might be the case (Mitchell, 1983). Factor analysis to collapse multiple constructs into a single or few constructs is difficult for case analysis because in each case, the indicators are different and qualitative evidence are difficult to collapse (Eisenhardt, 1988). The author did attempt the process despite the difficulties, but was unable to collapse the constructs due to other reasons: a low sample size and high number of missing responses in the survey to NGO directors.<sup>8</sup>

This approach in five phases is expanded in diagram A with the relevant case studies identified. The five phases included:

1. **Gaining access and pre-screening.** During the span of five years, the research engineer had access to a handful of appropriate cases involving the board of NGOs and only the relevant ones were chosen. During the research period two cases were later dropped as these deviated from the research question. The ability of the author to convince clients and win their support to the project was crucial. Overall, three initial cases were selected.
2. **Identifying the dimensions and conducting the case research.** A set of six constructs or control dimensions was first identified through literature review, along with control components for each of the dimensions. These were later modified through experience gained from the case studies for NGOs.

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<sup>8</sup> Please refer to the submission entitled "Investigate Research of Core Components of Corporate Governance for NGOs."



The first case involved the analyses of how school boards, known as School Management Committees, needed to change in view of increased accountability devolved to them by the Hong Kong Education Department. Some of the constructs from the literature review were modified due to the nature of the NGO. The second case involved the complete restructuring of a 30-person board for one of the medium-sized hospitals in Hong Kong, and which led to the author's initial development of the key steps for a GOVIS. The six constructs were tested and transformed into operational systems. The third case involved the refinement of the previous set of constructs and further strengthened the process methodology. New constructs were developed with the third case. Each of the cases were written up in sufficient detail and submitted as submissions to the portfolio.

**3. Expansion and clarification of the control dimensions.** The set of control dimensions was refined, along with its critical control components. The final two cases provided the required structure; and subsequent cases and literature review refined the control dimensions. An iterative process was applied in which data from multiple sources were used to confirm and clarify the constructs. The control dimensions ultimately expanded to 15 components.

**4. Refinement of the methodology.** The next step involved the refinement of the methodology and the confirmation of the relevance of the control dimensions through sample implementation. Having

identified a set of possible control dimensions through the case studies, the process for the methodology development was field-tested with several NGOs to test the relevance of the methodology. For the last case, GISDER was employed as the methodology and the process was tested.

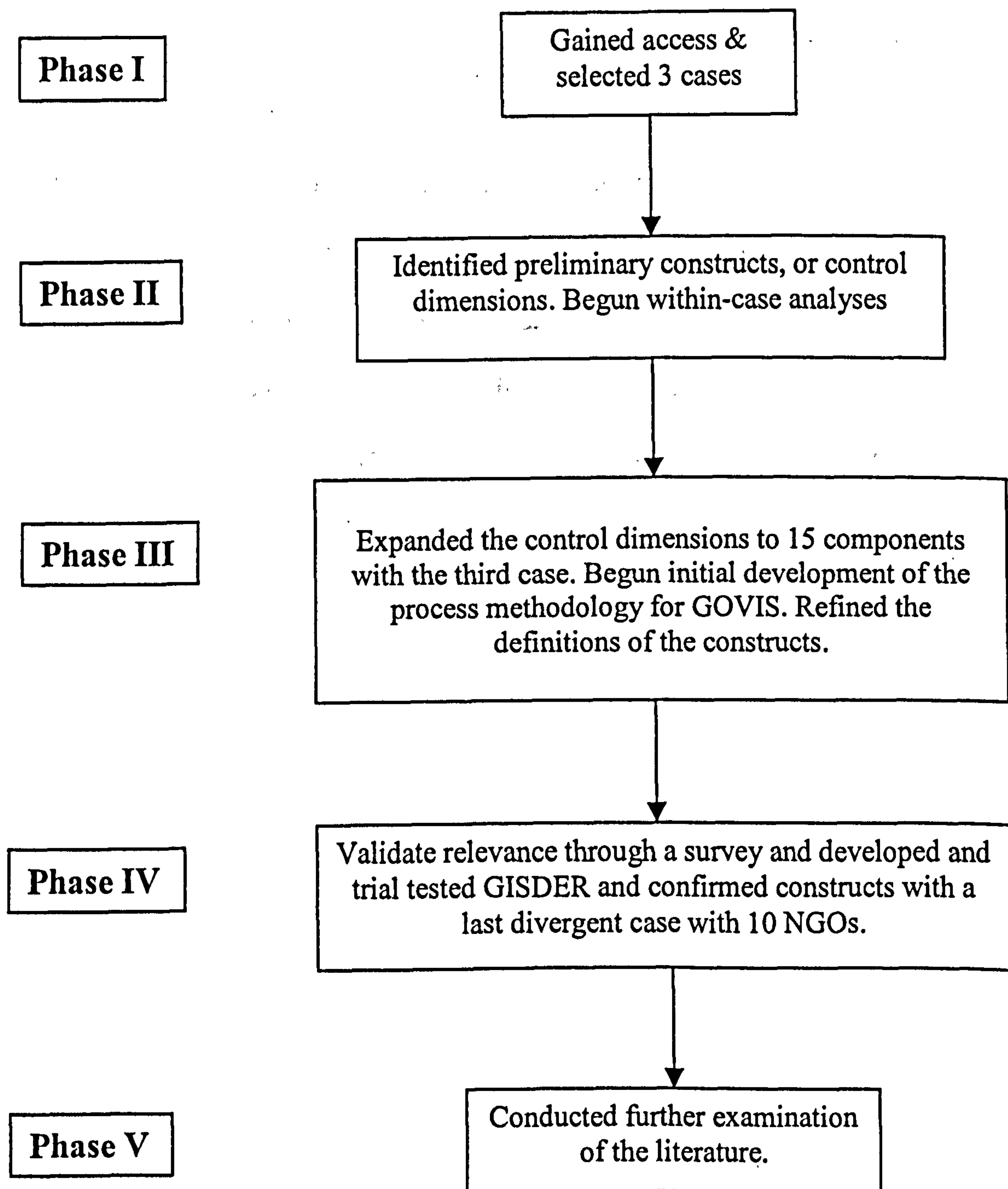
A survey sent to 280 NGOs was conducted. The results of the survey were inconclusive due to a low response rate as predicted earlier by Stiles and Taylor (2001). Further, there was no standard way of measuring performance of the NGOs. Nevertheless, the survey gave impetus to further research as the relevance of the control dimension was tested through this investigative survey. The survey had a response rate of 8% and the information collected indicated areas where further research would be needed. At this stage, the researcher was not able to find meaningful and incremental learning from further case investigations. As incremental learning declined, the research engineer moved to the next stage which was closure.

5. **Closure.** For closure, a test of the market was needed to ascertain market relevance. The GISDER Methodology was presented in several proposals to help clients instigate changes at the board level. GISDER was the proposed and subsequently accepted approach for the development of a management audit framework for a NGO Advisory Council and this case was the final validation case. The proposal was presented in August 2002 and actual project was accepted and work



began in October 2002. A further examination of the literature was in order and this process helped to clarify one of the constructs.

Finally, the derived control model and GOVIS development methodology were further sent to corporate governance experts in other parts of the world to ascertain their feedback and comments, and whose inputs were incorporated into the final draft of the GISDER methodology and served as a valuable reality check. This provided the needed independent assessment of the control dimensions.



**Diagram A: The GISDER Component and Methodology Development**

**Process**

## **6.8 Data Analysis Design**

In undertaking the case studies, the process of information collection, analysis, and reporting were rigorously conducted. Interviews using a semi-structured format,



each lasting an hour, were conducted with the directors by two interviewers and the information was triangulated and compiled into the findings of the cases. Interview notes could be shown to the interviewees afterwards to confirm data and input accuracy. Multiple and divergent stakeholders were interviewed to create a richer, multiple perspective, in order to identify the problem situation (Checkland, 1999) and in cases where there were access and time constraints, survey questionnaires were sent and analyzed as in the cases of the schools and hospital.

Focus groups and interviews with outsiders, shareholders and advisory boards, insiders such as the chief executives and even the top management teams were conducted to provide a much more balanced view of the problem situation. As these case studies were carried out at the request of the board of directors or the government, the author had access to all information that were made available to the boards as the sole intent was to help improve governance of these boards. Analyses of the minutes of board meetings and actual observations of the meeting process were done where necessary to clarify any issues. The organisations' annual reports, policy documents, monthly reports, and press cuttings were also referenced in order to paint a rich picture of the problem situation and to construct components for this new methodology. The outcome was a grounded theory of a methodological nature (Glaser and Strauss, 1967).

The process of analysis was deliberate and sequential. During the case analysis, within-case analyses were done and detailed write-ups were provided. All interview notes and presentation slides were documented. The author's analyses were presented to the boards themselves for confirmation and acceptance. The four core set of cases in this research had all been accepted by either the Steering Committee nominated by the boards or the boards themselves. In developing GISDER, cross-

case analyses were done. Control dimensions and the process of formulating them were suggested at different times by the cases and research literature. A pattern of how a governance information system was developed over time and GISDER came into being.

The research engineer conducted frequent feedback sessions with the clients to confirm facts, with the preliminary reports shown to all colleagues on the team; draft reports were shown to the clients and to an independent quality assessor before issue of the final report. Chair Professor Robert Tricker who was also the emeritus consultant at the research engineer's company assessed all the reports independently. Professor Tricker evaluated the content of the draft final reports as presented to him and he was not actively engaged in any part of the fact-finding, analysis, nor final presentation of the cases. His inputs were received in all cases and were added to the final reports which were then presented to the clients' boards.



## 7 Initial Findings and Recommendations

### 7.1 *Findings from the Case Research*

The school governing boards of 30 secondary schools in Hong Kong<sup>9</sup> provided the research engineer with an opportunity to modify the set of control dimensions for these NGOs, based originally on the research of Tricker (1994). This new list of control parameters aligned with subsequent literature review, in that the functions of NGO boards as described by Oster and O'Regan (2002) were consistent – philanthropy (or giving), monitoring, and volunteering -- where the latter meant a director's active participation in the service of the NGOs. Tricker's (1994) original six functions began with these constructs or control dimensions:

1. Strategic planning
2. Policy making
3. Monitoring and supervision
4. Accountability
5. Fund raising
6. Promotion

From the insights gained in the first multiple mini-case, the research engineer was able to modify first component, from “strategic planning” to “planning and budgeting.” The logic for this was that the Hong Kong government maintained much of the control over strategy and schools were not allowed to develop their own strategy. Self-governance was beginning to take hold as a concept. The second component, “policy-making,” was changed to “internal policy making” to specify the

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<sup>9</sup> Submission entitled “The roles of the school managers under school-based management.”

limited flexibility the schools had had over policy-making. They could only develop internal working policies. The last component, “Promotion” was also modified to “Public Relations and Community Relations” as schools believed active marketing of their programs as defined by promotion would connote a commercial view of their venture.

The second case study involved the board of a hospital in Hong Kong.<sup>10</sup> At this time, the responsibility of self-governance was more pervasive and this particular board was specifically mandated by the Hong Kong Government to improve its governance arrangement. With much higher levels of responsibility for its own future, the board began to formulate strategy and was less concerned with how the system could be maintained, as that would be the responsibility of management, of governance. “Policy-making” was reinstated as the board now had much greater role in developing new strategies. “Accountability” was modified to “Ensuring Accountability” of management and the research engineer noted that clarifying the respective roles of management and the board should be a vital stage in the process methodology as the boundaries were often unclear, thus accountability was difficult to ascertain. Without clear accountability, systems ownership could not be assigned properly.

The following table illustrates how the dimensions were refined through the first two cases.

**Table 1: Component Development Process**

Tricker’s	Case 1: School Boards	Case 2: A Hospital Board
Strategic Planning	Planning & Budgeting	Strategy Formulation
Policy Making	Internal Policy Making	Policy Making
Monitoring &	Monitoring &	Monitoring and

<sup>10</sup> Submission entitled “The governance review of a hospital group.”



Supervision Accountability	Supervision Accountability	Supervision Ensuring Accountability
Fund Raising Promotion	Fund Raising Public & Community Relations	Fund Raising Public & Community Relations

Moreover, the additional learning gained here was that the dimensions by themselves were inadequate, without a governance infrastructure to put them in context. The linkages between the dimensions, or the interrelationships among these systems had to be defined through specific authority, duties, roles, structures, and systems performance. These inter-linkages together would form the governance infrastructure. For example, the roles of the board needed to be operationalized and this could be done through a system of checks and balances through committees and an oversight system. An entire preliminary set of infrastructure was designed by the research engineer for the client so the directors would simply learn to operate the system, and not worry about how the systems would be developed and fit together. The systems of strategic planning, policy making including a set of operational policies, new roles and job descriptions for the board and management, and terms of reference for the committees were developed with the directors<sup>11</sup>.

But even such degree of joint systems development was insufficient. The system as designed was still not working because it was later learnt that one could not assumed that the owners of the systems knew how to use or would use the systems as designed. Many directors were not able or unwilling to use the system as designed because they were not willing to attend systems learning modules developed specifically for them. The resistance to learning was high, as this would involve more time commitment. It was later raised by some directors that the extra time

<sup>11</sup> The development of the infrastructure allowed the research engineer to experiment with earlier forms of GISDER.

commitment was outside their expected voluntary commitment; many just ignored to show up for meetings and take on their duties using the new systems<sup>12</sup>.

An important learning point from this case was that the directors must be linked into the development of the governance infrastructure in order to use the system, to learn from the system, and to improve upon the system themselves as ultimate systems adjusters. This led to the incorporation in the process methodology of stages to intricately link directors in each key stages of the development process.

The third case involved one of the largest charitable groups in Asia, with over HK\$4 billion in revenue, 20 schools, 5 major hospitals, 20 directors, and over 10,500 staff. Their systems and infrastructure of governance was well developed, through 125 years of application and refinement. From this study, the research engineer learned that six dimensions were incomplete and what this mature organisation had exhibited a much more mature system for a complex organisation. Although they had begun with six dimensions in 1991<sup>13</sup>, their stable structure gave them more incentive to develop into higher orders. A review of the systems of performance for management, "Funding System" (replacing fund raising) and "Total Quality Management processes (TQM)" were later added to the list. To strengthen its self-governance capability, the board needed more channels where information from its customers and staff could be gained outside the normal management reporting system. Thus, "Managing Stakeholders' Perception," "cultural alignment" and a system to "Align the [implicit] Mandate given by the Community" were added as well and the latter replaced "Public and Community Relations." The list had now grown to 12 components and incorporated the four boxes of the balanced scorecard (Kaplan and

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<sup>12</sup> A new hospital board was constituted by the Hong Kong government a year later in which the majority of the past directors with low attendance were forced to depart.

<sup>13</sup> The research engineer was asked to design a new board succession system for this group in 1991, seven years before this research had begun.



Norton, 1992). At this stage, it was found that the roles of the board had an impact on the governance infrastructure and new factors for this infrastructure were developed – namely, “Boardroom Learning and Activism” and “Succession for Directors.”

A further review of the literature, discussions with international governance experts, and a validation survey gave further insight to the development of more dimensions contributing to both the roles and systems of the board and to the governance infrastructure. “Innovation” and the “Management of Knowledge” were added to the roles while “Board Structure,” and “Disclosure and Transparency” were added to the infrastructure. The last case provided an extra dimension, “Risk Management,” and this literally stood to capture all other variations that would exist.

Together, 15 dimensions were finally identified for the functioning systems of the board as relevant and these formed the context of the control dimensions within the GOVIS<sup>14</sup>. The titles of the systems were later amended and defined. These final titles are presented in table 2 below. The roles of the board would dictate the infrastructure they need to carry out such functions. Six systems were found to be relevant for the infrastructure. These are explained in the next section.

### **7.1.1 Control Dimensions**

From the case studies and building on the work of Tricker’s six boxes of governance and Simons’ (1995) four systems of control, it was evident that the boundaries of control at the board level could be constrained by trade-offs between the subsystems that made up the governance infrastructure. Organisations of different size, maturity, and degree of self-governance could conceivably incorporate different subsets of control dimensions and the last final case provided the context which

elucidated this assertion. The functions of the board of directors as determined by the board themselves or by their constitution, would determine the type and extent of supporting infrastructure they would need. This infrastructure, in turn, has an impact on the level of sophistication and fine-tuning by the directors of the underlying information system.

Based on the action research described earlier, the author was able to identify a total of 15 dimensions that can be integrated together, nine more than previously identified, and they are summarized below. For additional information such as the latest good practices for each component, reader should also refer to the Guidelines for Good Practices section (Annex A). By using the scale along with the Guidelines, the assessor will be able to identify the extent of insufficiently good practices for his agency:

1. **Strategy Formulation and Implementation System:** The strategy formulation component refers to the processes and the system in which the agency's strategic and annual plans are developed, reported upon, monitored, evaluated, implemented, and reformulated. A strategic plan is typically long term (more than one year) and frames the annual and working plans. An effective strategic plan typically includes the agency's vision, mission, goals, objectives, strategies, action plans, tactics, and resources employed set against some timeline. The strategic plan provides the blueprint for the agency's annual plans that are only one-year in duration.

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<sup>14</sup> The submission of the first GISDER template was based on 12 components.



**2. Policy Structure Improvement System:** A policy is a set of guidelines on the approach the NGO would take in managing its various resources. A policy typically does not include a set of procedures which are detail steps. A policy, usually created by the board and set in place by the directors, provides the rules that should bound management decisions. The structure with which policies are developed includes the process of information gathering, review, decision, monitoring for deviations, and removal. Policy structure improvement therefore refers to the system in which policies are formulated and how they are replaced.

**3. Financial Management and Funding Adequacy System:** Financial management concerns with all aspects of how the agency deals with effective management of its financial resources and assets in order to optimise utilisation of resources in achievement of objectives over the long run in line with its sustainable strategy. Financial management also concerns about providing useful financial information for management and stakeholders through timely reporting of relevant financial information. With annual budgeting and corporate financial planning as the heart of the financial management, the scope of financial management includes treasury management, grant management, fund raising, financial reporting, management accounting, financial control and financial performance measurement.

**4. Accountability and Transparency System:** Particularly under LSG, the accountability and transparency system strengthens management quality and decision making by clearly laying down the authority, structure, reward and punishment, and problem resolution responsibilities for all individuals in the agency. Accountability looks at to whom those responsibilities must account and how. Transparency strengthens the reality of accountability; and allows accountability to be monitored by outsiders. Transparency is a contributing part of the system because this affects the amount, frequency, timeliness, and quality of disclosure of information for users and sponsors of the agency. For NGOs, being accountable to the stakeholders, and more importantly donors, is vital and necessary. As NGOs need to raise its profile in order to raise more funding, they have to be seen to be accountable and transparent. NGOs are spending government and the public's money, using land that is probably provided to them at a subsidised fee, and they are exempt from paying taxes. For the directors who sit on these boards on behalf of the funders and donors, this means they have to ensure that their NGO is accountable on behalf of the donors, private and government funds. How well this is done is through the application of transparency.

**5. General Staff Supervision System:** This refers to how employees are being supervised at the agency or the systems and processes in which management are using to supervise their staff. The more sophisticated is the service, the more is required of the individuals providing the service for self-supervision, coupled with having an independent party providing the checks and balances support. Supervision is a guided process, and both the supervisor and those



being supervised must understand what they are doing and the output or performance needed for the post. The system therefore is fundamentally about the processes and practices that would bring about better performance for the individual staff: How employee performance is set, appraised, remedied, encouraged, trained, and rewarded.

**6. Performance Management and Measurement System:** This refers to how performance of the organisation is managed, encouraged, designed, tracked, and linked with remuneration and reward. There are three levels of performance for the agency – organisation or agency-wide, departmental, and individual; and the issues of performance indicators are crucial to the integrity of all three levels. Performance measurement is the heart and soul of a well-structured performance management system. How performance is set, monitored, measured, and assessed in the form of indicators for the overall agency will be covered more explicitly here.

**7. Succession Planning System:** The Succession Planning process is the means by which the organisation attempts to ensure that it has the people it needs in the posts where it needs them and at the time that it needs them. The Succession Plan is an integral part of a rolling three-year planning system and should be revised annually after the Strategic Plan itself has been reviewed.

8. **Monitoring and Information Reporting System:** This component refers to the management systems for monitoring and reporting information to decision makers, essentially the board and management. Today's NGOs often employ computerised based information system to make their operations more efficient. Types of information management systems include decision support system (DSS), executive information system (EIS), management information system (MIS), and governance information system (GOVIS).
9. **Service Quality Management System:** This system deals with the ability of the agency to meet quality systems and processes such as the requirements specified by service recipients and having the systems and processes to understand their changing needs and being able to deliver to meet those needs at a high standard. The viability of the Service Performance Monitoring System (SPMS) is included here.
10. **Change Management System:** The change management component refers to the major new processes and the systems in which the agency has planned and implemented change initiatives such as a change in culture or a fundamental way of operating. All definitions of change are problematic. This is because they assume that one can differentiate between states of change and stability. To keep things simple and practical, for the purposes of this guideline, organisational change refers to any significant, purposeful change initiated by management for which inaction would fundamentally undermine the viability



and the health of the NGO. Moving into a LSG environment, delinking salary structure, and a reengineering exercise would be major change initiatives.

**11. Service Marketing System:** Marketing in the NGO sector deals with the ability to understand the changing demand and desires of the service recipients, and from there, deliver and sell on such perceived value-added services to them, at a quality and price level that they would find worth the value. Under LSG, marketing for an NGO directly impacts on the ability to draw in donations and fee-based services. Marketing encompasses a number of disciplines which include marketing research, service and product development, marketing channels, sales, branding, promotion, advertising, public relations, distribution, pricing, and more importantly positioning in the minds' of the users, donors, and stakeholders.

**12. Systems of Managing Stakeholders' and Public's Perception:** This management system deals with the process of creating, managing, maintaining, improving, and removing an agency's image, brands, and public relations practices. Accidents and mistakes can happen anytime and anywhere. All agencies must be prepared to handle the release of bad news to the outside, as the process can affect the goodwill that has been built over many years with the community.

**13. System to Nurture Innovation:** Nurturing innovation concerns with creating a culture that embraces creativity and entrepreneurship, supporting staff to learn new skills and ultimately, creating an environment that encourages the employees to find ways of serving customers faster, better and cheaper. Innovation involves a set of processes, including idea development, idea screening, concept development and testing, market analysis and test marketing. Innovation is much more than just a new idea; it is a workable and marketable new idea.

**14. Systems to Manage Knowledge:** (KM) is concerned with all aspects of knowledge within an organisation, including knowledge creation, documentation, codification, sharing, and how these activities promote innovation, learning, effectiveness, value creation and productivity. Underpinning the philosophy of any learning organisation or one that claims it could learn from its mistakes is the working practices of knowledge management. A service organisation or one that provides services as its principal value fundamentally would have to manage its service knowledge over time, as knowledge would be one of the most important assets it possesses. Departure of key staff, if not properly managed, will undermine the ability of the agency to consistently provide quality service.

**15. Risks Management:** Managing risk is system of processes. These processes can be seen as a series of measures taken to identify, control, and avoid the possible unforeseeable threats that might bring an enormous adverse impact to



a system without any early notification. It is always difficult to completely identify and cover the full extent of risks. While setting a perfect network to embrace any upcoming risks is almost impossible, an effective risk management system enables an organisation to proactively review and anticipate the range of potential risk exposures as well as to avoid and mitigate risks. In summary, the risk management process is about making critical decisions and determining how to best accept the consequences of these decisions. The whole process of risk management should be divided into 3 areas: risk analysis, risk monitoring & control, risk avoidance & mitigation. Different organisations operate in different business nature, thus it is important for each agency to build up its own list of risk categories that could most reveal its own business environment.

These control dimensions would be operationalized or made 'real' by a system of performance and control measurements, which are identified as critical control components (CCC) by the research engineer. Each dimension would have a number of CCCs and these CCCs are the control parameters for the broader CSFs.

As presented earlier, the systems of control would also be reinforced through the governance infrastructure and these factors, mostly of which are related to processes, would include:

1. **Boardroom succession processes:** the process of appointing, directing, monitoring, remunerating, and retiring directors; the tenure of the chairman and other directors;

2. **Decision-making processes:** how decisions are endorsed, made, recommended, interlinked with the underlying working sub-committee structure.
3. **Boardroom learning processes:** self-evaluation; the frequency of meeting, level of discussion, and the process and level of self-critique and continual learning;
4. **Disclosure and transparency processes:** level of the disclosure of information to the public and systems of regular information dissemination such that the public or other stakeholders can become outside monitors of the board themselves. The degree of transparency and openness of information to contributors as determined by the board;
5. **Committee Structure:** The number and functions of the committees of the full board and the committees actually are the operating arms of the board of directors.
6. **Formality:** The degree to which meetings and reports are formalised.  
A formal process would include having an agenda, written report submission, voting, secretarial support, minutes; whereas an informal process would be ad hoc supported with verbal briefing only, and no or simple documentation.

The last case, with its varying size and maturity of the 10 NGOs, provided an additional insight. The learning was that the 15 components would only be acceptable by the NGOs through a gradual manner, with consideration for the complexity, size, and maturity of the NGO. A small board did not want the system complexity associated for large boards. Less sophisticated boards did not need a system to manage knowledge for example. As such, a three-tiered system was introduced and



the NGO board would identify the level of complexity to be designed into the governance information system. For example, it was found that a small and young NGO would prefer an information system that would support their efforts in carrying out the minimum functions.

**Table 2: Three Grades of Complexity**

Minimum	Acceptable (minimum plus these)	Nice-to-have (acceptable plus these)
❖ Strategy formulation and implementation	❖ TQM or service quality management system	❖ System to nurture and manage innovation
❖ Policy structure improvement	❖ Monitoring and information reporting system	❖ Managing knowledge
❖ Funding adequacy and financial management	❖ Change management system	❖ System to manage stakeholders' wants and public perception
❖ General staff supervision	❖ Performance management and measurement	❖ System of service marketing and promotion
❖ Accountability and transparency system	❖ Succession planning	❖ Managing risks

Ultimately, the standards for all indicators will need be raised, in keeping with higher level of performance in the industry due primarily to increased competition. Based on the level as accepted by the NGO (minimum, acceptable, or nice-to-have grade), the first focus is to improve either the control or the performance enhancing aspects to a level at par with the other components within the grade, ensuring there is some form of parity. Then having reached this parity, increase both the control and performance standards at the same time by the same relative quantity. Otherwise, the system will be off balanced, with too much emphasis on one aspect. Having fulfilled the first grade, the NGO should move towards the next higher grade, designed for



organisation with increased level of complexity. Ideally, this should continue until the last grade is reached. Once there, new components reflecting the new needs of the industry will need to be identified and the competition within the industry will help clarify what other new components would be.

### 7.1.2 Information Systems Dimension

The above dimensions are reinforced with a focus on information systems effectiveness, that is, how effectively information has been enabled by IT and how well information has been able to assist in the delivery of the organisation's business mission. The main purpose of the systems review is to identify what level of information systems and technology is needed to support governance needs and how efficient and secure would the resources be to support the new GOVIS. Five areas should be considered within the GOVIS methodology (Avison and Fitzgerald, 2001):

1. IT/IS Strategy: What IT/IS strategy would the enterprise need? How control is to be exercised? In what ways must the IT support the business? (The identification of the 15 components provided the context in which a board could choose the relevant components).
2. Delivery: How resources are marshalled to produce and deliver IS/IT?
3. Technology: How technology trends are identified? Effectiveness of current architecture to support the GOVIS? How technology is chosen?
4. Systems: What do the information systems do? Functionality of the new information system and how the subsystems interact with one another?



5. Users: How is the resistance of the users towards learning new IT processes? How is human resources managed and how users are trained to learn new IT dominated processes?

These five areas were considered in the overall GISDER framework.

## **7.2 *Alternatives to Solving the Problem***

What other methods can directors use to develop their own systems of governance using information and decision support tools for decision-making at the board level, given the variety of circumstances in the environment that they must overcome?

One way is to change the functions of the board whenever a new situation presents itself. This would lead to a situation where the CE would have to deal with many bosses. Each of the directors taking on a different level of decision-making as he sees fit. The situation would be chaotic and probably unmanageable for the CE and much time and effort have to be spent on working with the many directors.

Another is to curtail the functions of the board. That is, to curtail the roles of the board and structure an executive board supervised by an advisory board, as suggested by Turnbull (1999). However, this just pushes the responsibility to the next level.

Another solution is to reinforce the infrastructure that provides for governance, such as introducing audit committees (which Enron has) and even to the extent of asking chief executive to swear by their financial reporting as in the United States through the Sarbanes-Oxley Act (SCMP, August 2002). Whether such amendments

have improved governance and methods to develop GOVIS have remained unproven and inconclusive however.

Another is to enhance transparency by introducing more outsiders. For public companies that have been listed, one recent method to improve governance has been the requirement that every board should have two independent directors (SEHK, 2001). However, this fulfils only one of two aspects of governance, that of conformance (Tricker, 2000). Having more than two independent directors on boards as a means to improve their control system, when this aspect had only been just one element of a total control system, had remained argumentative (Tricker, 2000). There is no evidence to suggest that having independent directors would improve overall governance (Monks and Minow, 2001; Tricker, 2002, Newell and Wilson). For NGO boards, where nearly all directors are independent directors, volunteers, usually non-experts, the value added on oversight would appear to be minimal. Such a composition encourages a wider perspective but comes at the expense of a much looser understanding of how effective governance can be exercised (Taylor, Chait, & Holland, 1999). The topic of control must be one of balance. Excessive control stops organisations from being agile! With an insufficient amount of control, any risks are inherently enhanced. But this balance can only be judged and maintained by the controllers, or board directors, or by those whom delegated authority by the directors were given. The controllers must have the appropriate information for making and supporting decisions. Furthermore, they must be willing to make decisions and learn from their mistakes.

The boards of directors have rarely questioned their own effectiveness, despite the fact that the boards' mandate is to oversee the performance of organisations. However, boards have had difficulty maintaining full control either, if at all. Recent



examples such as Enron, Baring Banks, Marconi, Project Hope, and others have shown that the board of directors can never exercise total control, particularly over execution consistently over time. The board of directors have never been in “absolute control” (Cadbury, 2002). For NGOs in particular, full control is not feasible when this control is being exercised on a part-time basis and when non-executive duties are often allocated on a reward basis for friends and mutual acquaintances. Perhaps the assumption that total control could be achieved be dropped, and instead, focus the board on marshalling efforts to manage and leveraging control over the circumstances that it would encounter. Allowing management maximum flexibility within controlled parameters such that the environmental variety can be dealt with, is one alternative (Beer, 1985) and the board merely plays an oversight role. As such, the information systems so designed would need to be sufficiently adaptable to enable the directors to make their decisions in terms of oversight and review, while allowing management to make the key decisions instead. The board however first needs to identify what are the functions they have over management and what are the functions they are sharing with management. This leads us back to the current methodology.

Another possible solution is to strengthen the systems of control by strengthening the process of control. The components can be defined in terms of only processes, and not in terms of systems and processes as done by the research engineer. Processes can usually be improved (Hammer and Champy, 1993). Modifying the process or perspective in which governance is viewed can optimise the impact of governance. The board can modify its governance process. The control processes can be improved, namely in the context of input, processes, output, and outcome (Neely, 1998). Given the longer time horizon of the board, the output and outcome control measures would be within the remit of the board. A problem with this output-



process perspective is that these output indicators are produced after the fact, and that there is little the board can do by the time they know of this fact (Neely, 1998). The issue of timeliness is a crucial aspect and one that is often ignored (Kaplan and Norton, 1994; Neely, 1998; Tricker, 2000). Another perspective is to view the control systems in terms of outcome control (measurable outcomes of the management process) or the behaviour control (on the quality of the management processes) (Neubauer and Lank, 1998). Process indicators therefore had become a useful set of measurement, as they would give the board some level of early warning; but by themselves, they are inadequate. The governance infrastructure factors are essentially process based; but they alone are not sufficient to identify what the board should be doing. Processes reliant on the part-time directors to undertake the processes, and to do so without systems and linking the processes together in a coherent manner have limited potential to improve governance. When reinforced with managerial behaviour or information on how management had dealt with such issues, the board of directors would be able to obtain a much richer set of information for control and monitoring (Neubauer and Lank, 1998). But such level of modification would mean development along the line of the GISDER methodology.

Given this background, the options for solving the problem, as stated, are few! We are led back to the current methodology in most cases.

### **7.3     *Development of the Optimal Solution***

The optimal solution for a client would be a solution that has taken account of the client's unique situation, while keeping a reference to some standard template so that learning can be cumulative. As such, the author developed a working template that could be modified to some extent, to fit the unique situation of the client, thus



encouraging a best-fit solution. Based on the alternatives presented, the author chose to develop a system of architecture that would allow the directors as a team to select the relevant dimension for control, for their organisations first. Clarifying the roles and functions of the board would prepare them for the next step. Identifying the governance infrastructure – decision-making for example – is next and this in turn, would provide the context to the information systems to be developed. The information system would then include specification on user authority, deadline for decision-making, and situations when user intervention is required.

The board needs to determine collectively their trade-offs in control and flexibility, and identify the set of relevant control dimensions for their organisation. The involvement of the board – participatory to advisory – will have an impact on the components chosen. Having done this, a consultant using the GISDER methodology, would work with these directors to bring about a set of critical control components and the relevant information and reporting infrastructure.

The new GISDER framework grew out of the technologies behind EIS (Executive Information System), DSS (Decision Support System), CRM, and ERP framework. With the heightened levels of attention towards corporate governance, the research engineer developed this information systems development approach to help enterprises strengthen their levels of self-governance in view of the technological movements in each of these technologies. This methodology was developed to provide consultants with a robust change management framework which includes delivering an IT/IS development plan with clear deliverables, so that the consultant can effectively help to deliver IT system changes which are dependent on the governance arrangement of the client. Assessing an enterprise's governance system without helping it to develop a set of workable performance metrics and reinforce that



with a system of checks and balances and learning paradigms for the directors would only produce a static system (Lucas, 1985; Lundeberg et al. 1982).

The enterprise or corporate governance framework drives and sets information and technology governance. An enterprise's activities require information and resources from all key activities in order to meet business objectives. A successful and sustainable organisation ensures interdependence between the components (such as strategic formulation) and IT/IS activities. The GISDER methodology allowed for this. The board activities must be aligned with and enable the enterprises to take full advantage of its information, thereby maximizing benefits and capitalizing on its opportunities (IT Governance Institute, 2002), and the methodology has allowed for this. The methodology also has a built-in process to encourage directors to learn about their environment and the new balances they need to maintain as a result.

GISDER allows an enterprise to analyze its internal processes in new ways that are defined by changing business opportunities and threats instead of by preconceived systems design or without regard for business strategies. Directors are asked to be participative in the design. In this architectural design, an object model represents all aspects of the business -- what is known, what the business does, what are the constraints, and what are the interactions and the relationships. A business model is used to migrate and integrate parts of the legacy systems to meet the new business profile.

GISDER is a methodology used to bring out IT plans and architecture. By itself, it is not the architecture. GISDER orientation is similar to a distributed/collaborative enterprise architecture where it builds its new business applications on top of distributed business models and distributed computing technology (Shelton, 1993). Applications should be built from standard interfaces



with "plug and play" components. At the core of this infrastructure is a de facto protocol to link the distributed objects, process, applications and system together. The flexibility inherent in the methodology meant that the research engineer could apply the framework judiciously, and some of the steps could be rearranged.

### 7.3.1 Evidence

The methodology has been applied by the research engineer on several instances. Firstly, the methodology was used in proposals that developed the framework ranging from the development of IT system to the design and development of management audit templates. At least one of the proposals using GISDER was accepted by the clients. A survey sent to 280 NGOs further reinforced the validity of some of the components and the cases gradually grounded the components. The methodology was developed in the three cases and GISDER was applied piecemeal in each of the cases. An example of where GISDER was adapted was for the development of a management audit for NGOs as described in a submission in which the situations at 10 different NGOs were considered.<sup>15</sup> For a further discussion on evidence, please refer to the section on the demonstration of innovation.

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<sup>15</sup> This was the last additional submission, "An Interim Report on the Development and Acceptance of a New Management Audit System."

## 8 The New Governance Information Systems Design Methodology

Because of the initial findings, the research engineer undertook research to develop a new information systems methodology for NGO board of directors. This information systems design methodology, called GISDER, will be expanded on in this section.

### 8.1.1 What is GISDER?

GISDER stands for the enterprise's "Governance Information System, Design, Enhancement, and Review" methodology. It is a systems development methodology used to develop a Governance Information System or GOVIS. The methodology is a governance transformation process which utilises information technology as its enabler. The methodology looks at the extent to which information systems have been used to support decision-making and effective governance. It also looks at ways that the board of directors and the supporting infrastructure would need to change in order to provide better feedback loops and systems of checks and balances. It is a methodology that is used by management consultants and systems developers to assist organisations in their efforts for change in introducing higher levels of governance.

GISDER is also known as a software process technology. According to Carnegie Mellon University (2001), software technology is defined as *"any concept, process, method, algorithm, or tool, whose primary purpose is the development, operation, and maintenance of software or software-intensive systems. Technology is not just the technical artefacts, but the knowledge embedded in those artefacts and the*



*knowledge required for their effective use.”* A process technology, of which GISDER is a type, is therefore a software technology. Process technologies are those that would make people more effective in producing and maintaining operational systems and tools by structuring development approaches or enabling analysis of systems/product lines.

The technology is built on the desired business practices and uses the current IT infrastructure to define a blueprint to support the present and upcoming business activities of the enterprise. A key aspect of GISDER is its ability to link business strategy and IT implementation and enhances the ability of the organisation to manage risks and take advantage of its opportunities.

A true methodology is one that is built on theory and can interpret the theories to provide guidelines for the use of methods and techniques in practice. Using Wood-Harper and Fitzgerald's (1982) seven-factor classification framework, the methodology is categorised into these categories: -

- Philosophy
- Model
- Techniques and tools
- Scope
- Outputs
- Practice
- Product

Each will be dealt with in more detail below. Additional technical details have been provided in the assignment guide<sup>16</sup>.

Historically the highest level of information system support has been an EIS. However, an EIS does not necessarily include the parameters for governance, used mainly by senior management, with directors as subsidiary users using them sometimes as an afterthought. ERP, CRM, and DSS would be systems that would ultimately feed into the GIS. In the future, as GOVIS becomes the norm, it would form the overall architecture for information systems strategy for the organisation and this is one advance that is expected.

### 8.1.2 Philosophy behind GISDER

All methodologies have their philosophy and this distinguishes a simple model from a methodology. The new methodology developed assumed a contingency approach: that the system in question would be dependent on the environment and the acceptance of the users to improve their level of understanding and parameters for control. This means the sequence within the GOVIS methodology needs not be strictly followed. As long as the assumptions and framework remain relevant, the sequence should be adapted to the situation at hand, perhaps becoming iterative, and would involve a working agreement and frequent interactions with the users. Pure intervention at every stage is not anticipated. Because of the contingency nature of the methodology, the steps could be apply to the contents of a one-day workshop or to a complete change governance program lasting many months. This is not a cookbook methodology that should be followed blindly. The GISDER methodology had been designed to take on a contingency approach, that the system in question would be

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<sup>16</sup> This is one of the submissions.



dependent on the environment and to acceptance by the users of the need to improve their level of understanding and of the parameters for control.

Similar to Checkland's Mode 2, it is situation-based, not methodology-based (Checkland, 1999). We are reminded that during the early phase of systems engineering, Checkland's SSM grew out of the failure of systems engineering to cope with the complexities of human affairs (Platt and Warwick, 1995). The Governance IS application has been designed to govern a human activity system, which is the board of directors, and where consensus decision-making and learning are crucial factors.

The fundamental interpretive position is that there is no one true set of control parameters for all boards, but one that is appropriate for the environment and that is accepted by the majority on a particular board. Reality is socially constructed and this methodology reflects the nominalist perspective of the boards of directors (Avison and Fitzgerald, 2001). Truth is what the board has agreed and that the process of discovery and debate help the board gain insights through a deeper understanding of the complexity involved.

The wider environment is a critical factor in how the organisation's GOVIS would be designed. GISDER is an organisational-wide methodology, and as such, is similar to IBM's Business Systems Planning (BSP) methodology's big picture principle – that is, keeping sight of the big picture (IBM, 1975). How the directors would eventually come to use the GOVIS would be affected by how they see the environment, as different viewpoints at different times would need to be taken. A similar approach to that of Multiview (Mumford, E, 1995; Avison and Wood, 1986) whereby the views of other stakeholders, particularly in the case of NGOs where the government would subsidise these organisations, would need to be considered.

Additionally, the GOVIS can be a system relying on computer as well as human activity, incorporating the concept from the Information Systems Work and Analysis of Change (ISAC) methodology (Avison and Fitzgerald, 2001, 347). However, it is necessary to understand that building the GOVIS is not the only objective of the exercise. The directors have to learn how and when to modify the systems parameters when the parameters change to keep pace with the environment.

Similar to Total Systems Intervention (TSI) (Flood and Carson, 1993; Jackson, 2000; Wilson, 2000; Yourdon, 1993), GISDER would employ concepts from a number of methodologies. The GISDER framework incorporates elements from a range of methodologies, from IS development to change management. The key integrating elements that combine these methodologies have a set of operating philosophies and they are listed below:

- The enterprise or corporate governance framework drives and sets information and technology governance. Enterprises activities require information from all activities; IT included, to meet business objectives. A successful and sustainable organisation ensures interdependence between the strategic planning and IT/IS activities. These activities must be aligned with and enable the enterprises to take full advantage of its information, thereby maximizing benefits and capitalizing on its opportunities (IT Governance Institute, 2002);
- Unless the various systems are integrated and coordinated in a systematic manner, through a governance infrastructure, the system is probably inefficient and there will be occurrences where operating processing time can be reduced (Li and Chan, 2003);
- Information system requirements are dependent on the scope of the infrastructure and style of management and are not just about information



technology. The system accepts a host of inputs, from oral to graphics, as computerized input cannot be the only form of input for decision-making at the board level;

- The best designed system is inappropriate unless users come to accept and use the new IT system;
- A balance needs to be struck between control and flexibility; and the governing body should be in a position to adjust this balance. This balance will change over time and the users should be the governing body to recalibrate this balance from time to time; and
- A key objective of the enterprise's IT systems is to help its directors and senior management understand the boundary of their mutual control and the extent to which control can be regained. The systems must be designed such that users can identify and understand the limit of control, and whether remedial action can be taken to bring the subsystems back to normality. Top command or the governing board is reminded that total control is unrealistic and that they should seek meaningful control and be warned when something has gone out of control. Central command or the main board of directors is our case, is assumed to refrain from interfering with the daily operational work of the senior management and would only do so to restore order, thus allowing maximum tailoring of solutions at the user's end (Ashby, 1968).

GISDER has been designed such that it would allow an enterprise to analyze its internal processes that have been defined by changing business opportunities and threats. In this architectural design, an object model represents all aspects of the business; what is known, what the business does, what are the constraints, and what

are the interactions and the relationships. A business model is used to integrate and to migrate parts of the legacy systems to meet the new business profile.

### 8.1.3 Working Principals

Overall, the information systems based on the governance components and infrastructure would need to be adaptive. The frequent needs to modify the requirements for a GOVIS by the directors themselves are brought about by a list of working assumptions. To reflect realistic requirements, GISDER has incorporated two principals:

The principles behind MAS reflect the current thinking in management practices and application where a focus on quality is prime; and the imposition of control systems, minimum level of control that is, is essential in helping an organisation perform under a guided approach. As a result, the two key principles are total quality management (TQM) and management control systems.

#### *8.1.3.1 TQM and Defining Service Quality*

Service Quality, like excellence and management, is a concept that is easy to visualize but difficult to define. It has remained a source of confusion to managers in the NGO sector. With service quality is the concept of total quality management or TQM. In Hong Kong, the concept and practices of TQM is a little over ten years old. Quality improvement is unlikely when practitioners don't know how to define it. Even when quality has been precisely defined, it has been focused narrowly on the factory floor in the Pearl River Delta or has relied primarily on traditional methods of quality control. The introduction of the Service Performance Management System



(SPMS), which is also based on the principles of TQM, has helped to bring clarity to many NGOs.

TQM is all about giving service recipients what they want, however simple or complex their needs. TQM encourages multiple perspectives on quality, actively shifting the measures of products more from design to quality. Today, effective TQM practices would design in quality such that errors would be automatically reduced. For the social welfare sector, the design of procedures in providing services to the recipients would be redesigned such that the chances of not doing it correctly can be minimized. The TQM concept is the most comprehensive quality concept to date.

Every function, every service centre, and every individual within a function, has a set of customers. Each of these customers has a set of spoken and/or latent needs or requirements. Every organisation has both external and internal customers. This focus on the customer-supplier relationship is crucial to any attempt to improve quality, even for NGOs. This concept recognizes that everyone in a process is at some stage a customer or supplier of someone else, either inside or outside the organisation.

Although the concept of internal customer has just begun to be accepted in the NGO sector, it has refocused the agencies that have imposed this concept to understand and appreciate the simplicity in administrative design. Focus for any organisation is the external customers, but if the internal customers are not served properly, the external customers will not be served. The key is of course, to reduce the number of internal customers and internal demands such that resources can be applied to the external demand as that would bring the biggest bang for the buck. The

ultimate, external customer is better served if each internal customer is also served to the fullest – in terms of timeliness, completeness, and accuracy.

At front line level, TQM starts with the external customer requirements, identifies the internal customer-supplier relationship and requirements, and continues with the external suppliers. These are called processes and within the concept of reengineering any process can be reduced in length and duration. As each NGO is given more authority for self-governance and management, it needs to decide which processes must be kept, which can be reduced, and which should be eliminated. TQM focuses an enterprise's activities and energy.

#### ***8.1.3.2 Management Control System***

The aspect of control had probably been one of the most important functions of a board of directors and the senior management team. Under LSG, control will be exercised typically through a Funding Service Agreement (FSA). This is a service contract with a budget that would have been agreed beforehand, through sets of operational performance numbers that would be acceptable by the board; and through directorial interference and questioning of the chief executive's management. Before LSG, control was exercised by the SWD through their input control system. After LSG, the board of director is principally in control of their own resources. The context for self-governance has been set.

Within this discussion, NGO has begun to exercise control through financial measurements and financial oriented procedures principally and these had been the main levers used by the senior management and the board. Management control system is basically a human-based system.



Fundamental to any control system is the existence of feedback. The concept of feedback has provided a powerful tool for understanding the structure and behaviour of the management control process. Often the control systems are employed through a management by exception approach, also known as negative feedback.

Robert Simons' research at Harvard University (1995) on management control is one of the key frameworks that would be used here. Simons saw control system as a primary means of realizing an organisation's strategy. Simon's levers of control involved four types of control systems. These control systems are as follows:

1. Diagnostic and analytical control systems
2. Interactive control systems
3. Boundary control systems
4. Belief control systems

**1. Diagnostic and analytical control systems** would be feedback systems that monitored the outcomes of organisational processes and allowed corrections through the changing of performance standards. Business plans, budgets, project plans, objectives, and reporting systems were all grouped under this type of control system. The tools of control included performance indicators, which included profitability and other ratios.

**2. Interactive control systems** would be the mechanisms in which all levels of management, not only directors, would use to interact. Regular meetings, which dictated a continuous discussion between the board and management, would serve as an example of interactive control. Interactive control systems were completely

reversed of the diagnostic control systems in which the interactive ones were designed to question status quo. Interactive provides more opportunity to test and assess current status.

**3. Boundary control systems** would be the boundaries as set by top management, which described the unacceptable behaviours of the organisation. Because board meetings are closed, what has transpired and the decisions made need to be put into a communication instrument. An organisation's set of policies are good examples. Sometimes these are also known as guidelines, practices, or rules, and limits, which are set to permit management to operate independently as long as these guidelines are followed. These guidelines literally set the boundaries by which management could not trespass but still gave them sufficient level of creativity.

**4. Beliefs control systems** would be the softer subtle control mechanisms which by representing the organisation's basic set of values, would impinge a culture on the whole organisation. The organisation's philosophy and values would be representative of beliefs control. The atmosphere and work ethics would probably be represented by a vision statement, and which would represent the culture and belief systems of the organisation.

A board of directors that have effective governance would apply these four control systems. When any one of the system is not working, the board would know why. Remedial actions are suggested and put in place by the management team.



### 8.1.4 Working Assumptions

GISDER also assumes a certain set of conditions. These assumptions are identified below.

- **Chaotic environment:** A turbulent environment in which many factors are outside the control of the board of directors;
- **Adaptation to the changing environment:** Ability of the system to help clarify unstructured problems as perceived by the group of users. Strategies are often emergent and not set and therefore the system has to be sufficiently flexible. It also assumes that problems are less structured at the highest level;
- **Modular and flexible application:** The position that any systems design methodology can be matched with other methodologies, and can be introduced out of any set sequence, as long as it fits the requirements of the clients;
- **Ignorance of corporate governance and information systems development methodology:** The directors' general ignorance and a lack of interest on the subject and systems behind corporate governance. Moreover, the directors' are assumed to have a shallow understanding of the benefits and applications of Information Systems, hence, a GOVIS is needed;
- **Overlapping control systems:** The part-time and voluntary nature of the directors' involvement often leads to incomplete fulfilment of duties. Certain duties must be performed, by the directors or by management on behalf of the directors. But board attendance is not mandatory and

rarely is board performance evaluated; some duties consequently are not done. Moreover, these boards of directors are staffed principally by non-executives, who are unfamiliar with the daily operational matters, and meet on average just once a quarter for board meetings. Because some duties are not performed, overlapping layers of control and monitor is often needed;

- **Agency alignment:** that it would not be appropriate to ask senior management to derive a set of governance components with which the board would be using to control them;
- **Double loop team learning:** whether the methodology would allow the directors as a team to learn from the information provided and question the fundamental assumptions behind the information;
- **Integration of automated and non-automated inputs:** allowed the system to accept a host of inputs, from oral to graphics, as computerized input should not be the only form of input for decision-making at the board level; and
- **Firm boundary between governance and management:** The board is assumed to refrain from interfering into the daily operational work of the senior management and would only do so to restore order. The system must be designed such that users can identify and understand the limit of control within their boundaries. Finding the right complementary balance for the board and management is crucial.

A key objective of the system is to help directors understand the limits of their control and the extent to which control can be regained. The technology has a higher



probability of working because the users of the technology are involved in the design and adjustment processes. The framework requires the system developer to work with individuals who ultimately would need to use the system, bypassing management who would be governed by such systems. User acceptance and buy-in is highlighted due to the interactive and gradual development process of the framework and users are taught the effectiveness of the conformance and performance indicator development processes. The risks still exist that these directors would not allocate sufficient time needed to design a GOVIS with the systems developer. Reasons included the following:

- Outside their expectation of the role of directors;
- Being busy with other things;
- Commitment to this voluntary effort is only a few years;
- Excessive amount of work and accountability for a role which is superficial in nature; and
- Limited knowledge of and exposure to the service deliverables of the organisation and systems which they have to govern.

Overcoming these resistances will be a challenge for the consultant.

### **8.1.5 The GISDER Design Conceptual Model**

The new GISDER design model is defined at the conceptual and logical model, not at the physical level. For the purpose of this methodology, the author employed a tier diagnosis. The tier diagnosis approach, accompanied by the bottom-up approach, has been adopted to complement a 7-phase design approach. This principle is applicable to both the IT and the business areas. The combined approach is applicable for NGOs because at the governing, business, and logical levels, the information system should be independent of any information technology

considerations. It is only at the physical level of information that decisions regarding information technologies would be considered. Core determining factors are use and acceptance by the users, and the transfer of information and knowledge across the organisation. The technology and its level of integration would play only a subordinate role. The GISDER methodology would follow a contingency approach, not a prescriptive approach. GISDER followed the five-stage approach.

The five stages are:

<b>Stage One:</b>	<b>Preparation</b>
<b>Stage Two:</b>	<b>Definition and Evaluation</b>
<b>Stage Three:</b>	<b>Creation of Options</b>
<b>Stage Four:</b>	<b>Implementation</b>
<b>Stage Five:</b>	<b>Maintenance</b>

### **8.1.6 Stage One: Preparation Stage**

Depending on the size of the client's organisation, the preparation stage typically takes from one to three months. The purpose of the preparation stage is to prepare the client and the consulting team for the change processes ahead. This stage identifies the necessity for a change in a direction towards a higher level of governance and delivery sophistication.

The first main task is to collect as much information about the governance infrastructure as possible, and arrange to meet with the directors on a scheduled timetable set during the first meeting to ease their fear against the introduction of the



GOVIS. Directors are extremely busy individuals and they need to be managed proactively. All directors should be interviewed, in order to avoid being seen playing favours to any particular directors. The level of entry is typically with the Chairman or executive director, either with or without the Chief Executive's sanction.

The main objectives for this stage are to clarify the participatory role of the board, create the workplan, recognize the environmental system, and identify the organisation's systems and subsystems, paying particular attention to the systems thinking viewpoints of changing patterns, relationships, and structures. The steps involved in this stage are:

- 8.1.6.1 Clarify boundaries of the board of directors*
- 8.1.6.2 Begin detail planning of the assignment*
- 8.1.6.3 Appreciate the organisation's vision, mission, and strategy*
- 8.1.6.4 Review the current organisational structure and its overlaps*
- 8.1.6.5 Take inventory of the existing knowledge pool, particularly IT experts and change agents*
- 8.1.6.6 Assess systems information viability*
- 8.1.6.7 Conduct profiling*
- 8.1.6.8 Identify the functional gaps of the board through a workshop*

### **8.1.7 Stage Two: Definition and Evaluation Stage**

This next stage, definition and evaluation, will take several months, ranging from one to three depending on the scope and complexity of the project. Based on an assessment instrument sent to them in stage one, the board in question will identify the list of components they would need to enhance and the stages of development currently for each of the components. By setting a priority on the first three to five components, a system of development is outlined.

The definition of the problem context would have been set by this stage. Further evaluation, based on the assessment, and taking on the additional steps contained in this section, should be dealt with intensively by the consulting team. A

cap of three months is imposed on this stage in order that the crux of the problems can be identified, presented with alternative solutions, and discussed with the client so as not to lose momentum for change.

This second stage would involve working closely with the board of directors, and possibly through an offsite meeting, help them agree the boundaries of governance and management, and identify the critical information for control at the board level. The board would be asked to identify the trade-off between control and flexibility for their organisation and to agree a set of control dimensions (from a list of 15 components). Once the control dimensions had been agreed and defined, the board would highlight a set of critical control components that will be further calibrated by the consultants for the particular organisation.

Essentially, the framework would be developed and put into place through this consultant-led facilitation process which kicks off with a strategic offsite meeting with the board of directors.

The main objectives of this stage are to determine where the organisation wants to go; confirm and develop the profiling in terms of its governance, architecture, and business; identify gaps and the IT efforts needed in closing the gaps between present and desired state; and identify and build the critical success factors (CSF), balanced scorecard, and critical control components (CCC) that would set the parameters for governance. The steps involved in this stage are:

- 8.1.7.1 Form a holistic model of business processes**
- 8.1.7.2 Conduct comparative review of customer relations systems**
- 8.1.7.3 Clarify and agree the critical information control dimensions**
- 8.1.7.4 Evaluate the assessment conducted in stage one**
- 8.1.7.5 Refine a balanced scorecard system for the board based on key goals**
- 8.1.7.6 Run strategy formulation offsite workshop**
- 8.1.7.7 Identify the critical control components**
- 8.1.7.8 Confirm key performance and conformance indicators**



The set of deliverables given to the clients after this stage would further cascade into the identification of key information needs at the operating levels. More importantly, the deliverables would include a set of foundation IS and IT integration strategy with which to determine how new information systems and technology would fit onto the core, and support the CSFs. Focusing the work of the consulting team to where the largest gaps exist would be the first action step. The 2-day offsite meeting and the resultant draft strategy would help determine which systems would need to be integrated to the core and which are better left alone. This phase is independent of any information technology considerations.

### **8.1.8 Stage Three: Creation of Options for Business and IT**

The third stage is principally analysis and the creation of optional strategies for business process integration and technological integration. Business focus is determined first, followed by the modification of business processes, and a consideration of the new and existing technology that would need to be introduced. This stage should be about a month.

The key phases in this stage are:

- 8.1.8.1 *Confirm business focus and core business processes***
- 8.1.8.2 *Run IT and IT Governance workshop***
- 8.1.8.3 *Link component systems to FSA***
- 8.1.8.4 *Prioritise and aggregate the projects***
- 8.1.8.5 *Create optional IS/IT integration strategies***
- 8.1.8.6 *Integrate IT into the business***
- 8.1.8.7 *Confirm the blueprint for change with the board of directors***
- 8.1.8.8 *Transfer Project Ownership***

At this stage, the board of directors and the consulting team should be very clear on what are some of the possible strategies forward. A snapshot of the current

situation should have arisen from the off-site workshop and this would provide the clues to the consultants on what it should be doing. Concerning NGOs, many service units also have Funding and Service Agreements (FSA) with the government or their sponsors. These define the services to be provided and the required performance standards in terms of quality, performance output, and essential service requirements (SWD, 2000).

A second workshop introducing IT and IT governance is run. Arising as deliverables from this workshop should be a gap analysis of the FSA and the consulting team should be keen to note that these key subsequent steps are put into place:

- Identify degree of gaps between the future and present focus;
- Select the best approach forward to close the gap of change, or literally the implementation plan for narrowing the gaps; and
- Formulate a strategic transformation plan.

The FSA will disclose to the consulting team the core processes in terms of service deliverables to the sponsoring body. For situations where FSA is unavailable, the consulting team will have to work with management to identify the core processes that support the continued operations of the organisation.

Once the business focus and the core processes have been noted and agreed, the consulting team then works with management to create optional IS/IT integration strategies built on each of the business strategic options. An important step in this stage is the creation of optional IS/IT integration strategy. This is to clarify the IT layers for each viable option. For this Layer Analysis phase, each layer of the information system would be analysed for horizontal integration and vertical channelling. The goal is to identify gaps, possibilities, and options that would be



associated with these IT/IS options. The directors confirmed the level of information they would like to receive and decisions made and the consultants would identify the proper IS/IT integration strategy.

While horizontal integration binds elements within the layer(s) as logical components for usage, vertical channelling provides the interface to pass data between the layers, above and beneath the main information layer. With the horizontal integration and vertical channelling, data interchange can be made bilaterally to the next component(s) or layer(s). The vertical and horizontal approach is ideal for both IT integration and business process integration.

The deliverable at the end of Stage Three would be an Interim Report that summarizes the data collected, presents key draft options for consideration, and provides a blueprint for the next phase. It would also present the implementation considerations and the action plans for a chosen option.

#### **8.1.9 Stage Four: Implementation**

Having accomplished the analysis and options development phase, the next stage is implementing the chosen option. The deliverable for this phase would be the plans and strategies with priorities, dependencies, and recommendations that should provide the best fit in view of the operating model of the organisation. This stage may involve the development of specifications and a delivery of a prototype (or a working template as in the case of the management audit), through a rapid prototype development scheme. Taken together, this stage will probably account for the majority of the development effort, and may take from five to seven months of development.

This implementation stage has these key phases:

- 8.1.9.1** *Accept the GOVIS as a viable and self-balancing system*
- 8.1.9.2** *Confirm new core processes and fine-tune*
- 8.1.9.3** *Launch the enterprise's change management program*
- 8.1.9.4** *Redesign the socio-technical systems*
- 8.1.9.5** *Define organisational patterns and reset policies*
- 8.1.9.6** *Install control and coordination system*
- 8.1.9.7** *Develop computer-human interface*
- 8.1.9.8** *Formulate a plan to set up the GOVIS*
- 8.1.9.9** *Develop a prototype*
- 8.1.9.10** *Develop physical specifications for the GOVIS*

A key step is the development of a Sketch/Plan or the plan for actual implementation. The Sketch/Plan Phase aims to publish an iterative document that would provide the details of the study, plan, process, and recommendations for re-engineering the information systems architecture and infrastructure in order to fulfil core business goal. This phase would:

- Focus on the move to WAN-based unified business process in order to support intranet architectures;
- Plan to implement unified business process/unified applications/unified data;
- Provide recommendations in reengineering systems to make them more efficient and amenable to integration with other systems to provide business process transaction instead of data transaction (Davenport and Short, 1990; Hammer & Champy, 1993);
- Expand the data interaction from different parts of the organisation and/or from external sources, e.g. data unification for Enterprise Application Integration (EAI), data warehousing, data mining/store, Decision Support System (DSS) and Customer Relations Management (CRM).



The deliverable for this stage would be the implementation plans and strategies with priorities, dependencies, and recommendations that should provide the best fit in view of the organisation's operating model. The most important deliverable would obviously be the implementation itself and the exact duration will depend on variables identified through the Sketch/Plan (Li and Chan, 2003).

#### **8.1.10 Stage Five: Maintenance Stage**

The last stage is the maintenance stage. This last stage of the change initiative would be setting up the mechanisms and structure to help maintain the systems integrity and robustness. A number of things would have changed since the start of the project. And eventually over time, even the systems the consulting team had installed would need to be modified, along with all supporting management systems. This is inevitable. An organisation as a living system will go through changes, and many of which would be unpredictable.

The key principle of this stage is to ensure the new systems put in place do not stymie further changes and that directors can be in a position to act as adjusters. Momentum for focus on processes that have worked to bring in better services and more customers should be continued and nurtured. In fact, this is in line with one of the essences of corporate governance, helping firms to sustain themselves over the long haul. In this stage, the consulting team would introduce, along with management and the board, proper governance methods, to help maintain this semi-transparent system so that the enterprise does not go back to the older format where too much restriction and rigidity have slowed down the potential for performance and proper conformance.

In this stage, these steps would be undertaken:

**8.1.10.1 Set up the Change Governance & Management Committee****8.1.10.2 Conduct Quality Audits on the CCCs****8.1.10.3 Identify the Change Champion and Trainers**

Experience has shown that the board should conduct an annual review of the system comprised of a team of directors and IS/IT consultants. Typically, the Change Governance Committee, an ad hoc committee, would be formed and would include the Honorary Treasurer, a systems person, the internal auditor, and a senior member of the board. The process of review should last several days, depending on the complexity of the systems in place. Detailed information and procedure for each of the steps can be referenced through updated version of the GISDER Assignment Guide.

**8.1.11 Techniques and Tools**

Checkland's root definitions would be used as the central item of reference. Other tools and techniques, such as STEP analysis, SWOT, Rochart's CSF, Checkland's conceptual modelling, and rich pictures would be used in the initial phase.

A central and innovative part of GISDER is the acceptance of the control dimensions, then having identified those, the identification of the so-called critical components for control. These critical control components (CCC) would be the components that the board must control in order to govern. Each CCC should have a feedback mechanism with which balance could be restored by an adjustor when the component became out of control. This required that such deviation could be recorded, could be provided on a timely manner to a controller, and that corrective



action could be initiated with minimal side effects. Each board must identify the type of CCCs needed and seek consultants to develop the proprietary CCCs.

Near the end, one deliverable would be a data flow diagram, an entity life cycle process, which is a technique for data and process analysis, or an object-orientated diagram.

### **8.1.12 Scope and Output of GISDER**

Applying GISDER to identify and introduce a working Governance Information System with consideration for proper governance is the main deliverable of this methodology. Nevertheless, because the process methodology is modular, the methodology could be made applicable to assist boards to institute changes in their governance system. By applying GISDER, a consulting team should be able to extend the viability of the organisation through a structured approach.

In summary, the scope of the methodology is the identification and specification of a governance information system (GOVIS), which would be fed with computer and non-computerised inputs. The GOVIS would form the topmost position of the IT/IS infrastructure. The GOVIS would be first delivering a monthly report containing the set of agreed CCCs that directors could use to understand the level of risks and exposure. The critical control component report would form the main deliverables of the GOVIS. The client might want a prototype developed using a rapid development tools, but this would not be necessary as getting the directors to be familiar with the new system of working was the primary objective. How such information was ultimately compiled and fed from other systems and converged into the development of an EIS framework would be outside the scope of the initial development effort, but would form the scope for the subsequent work.

Two examples are provided to help readers understand how GISDER could be applied in mixed context. GISDER could be adapted to the requirements. The first example is to use GISDER to develop an IT plan. In doing so, the consulting team would aim to provide a departmental IT plan with these components:

- A portfolio of prioritized IT applications with important implications on the business and major systems of the department;
- A high level update of the Information System architecture and corporate data model;
- A profile of resources, funding and benefits;
- Strategies on hardware, software, communication infrastructure, and related management, staffing, education and training;
- A proposal on departmental IT management structure;
- An overall 3-year IT strategy of the department; and
- A proposed implementation plan.

The areas of consideration would include but not limited to these:

- EAI, ERP and CRM applications that may enhance the department's core businesses;
- Extension and piggybacking possibilities with e-Government initiatives and incorporating and automating the backend processing logic with such initiatives;
- Human resources management systems;
- The Confidential Mail System for senior users;
- The standalone PC network infrastructure; and



- Other IT systems such as the Government Office Automation (GOA), Software Asset Management (SAM), and legacy systems.

Another example would be to employ GISDER to develop a management audit template for NGOs. Here the processes in GISDER were redesigned to fit the client's requirements and required the board to undertake a review of management.

Here the consulting team would look forward to deliver:

- An early warning system on risks for agency's board & senior management attention and proactive actions;
- Preparation for agencies to meet the government's Service Performing Monitoring System (SPMS) monitoring requirements (which includes a management audit);
- A regular mini-organisational review tool that the agency can self-administer;
- An internal quality assurance tool for the rigour and quality of organisation management; and
- An assessment and training scheme.

The assessment and training scheme would help the NGOs' governing body set in place a plan, processes, and training for directors that would help to examine the organisation's own structure, roles and responsibilities, systems of control and risks, corporate integrity, and the cultivation of an innovative culture. For individual members or directors of the governing authority, the assessment instrument would clarify the directorial/managerial responsibilities associated with governing an ongoing concern. The self-administered assessment instrument should enhance the ability of the governing authority to advance the organisation's mission through a systematic set of processes.

### **8.1.13 Practice**

This methodology would need to be a commercially acceptable product, and it has been designed to assist boards of directors (initially NGO boards and later all boards) understand and install a viable system of control over their organisations. An experienced management consultant should facilitate the assessment with expertise in governance matters, supported by IS/IT professionals who would subsequently create the GOVIS architecture for the boards.

A key is the development of a system of governance control and the process of team learning that would calibrate such control over time. How well the consultants could introduce this would be dependent on the receptiveness of the board towards this idea and their commitment, such as allowing the consultants to facilitate a board meeting through an offsite workshop.

### **8.1.14 Product**

The product combines a variety of deliverables, from initial consultation to logical specifications. Depending on the client's requirements, applying GISDER would produce these deliverables:

- Pre-assessment discussion
- A blueprint of action steps for the client
- A half-day to two-day workshop with the board of directors, where these would be identified and clarified,
  - Vision
  - Mission



- Critical Success Factors
- Critical Control Components (CCC)
- A monthly trial report on the CCCs
- An IT development and implementation plan
- An information strategy plan
- Systems output specifications needed to deliver on the CCCs
- A reference set of Code of Best Practices for the governing of the organisation, in view of the CCCs
- An assessment instrument for the board of directors to identify their control dimensions, with a workbook, for the organisation, using the Code as reference
- A guide to development – guidelines and suggestions on how to narrow the gaps for each of the components
- A one-day training guide, with all training materials, for the directors
- A user acceptance report
- A governance information system architecture report
- A post assessment review exercise.

## 9 Demonstration of Innovation

This methodology is innovative in that it provides the solution to inherent systems fault at the governance level, taking account of the degree of control and formality of the organisation for example. Some of the tools used in the methodology itself, in identifying the critical control components, tightening feedback loops, traffic light warning system, and designing the subsequent information reporting system are innovative as evidence in the design of the management audit system. Applying the cybernetic framework to corporate governance, in the areas of control, is innovative for NGOs and extends the work of Turnbull (1997) who was the first to link governance of organisations to cybernetics but did not identify a GOVIS methodology for doing so.

Before GISDER, the methodology in developing a systematic and integrated system for governance of NGOs, with the main portion of the output as specifications to be fed into the development of a GOVIS, did not exist as evident through a search of the literature and a search of methodologies. The context that gave the NGO boards more accountability in Hong Kong did not surface until 2000 (SWD, 2002). Another main reason was that the study of governance itself was just barely a decade old and boards and problem solvers were just beginning to come to grip with the components of governance. The practical frameworks linking board structures and GOVIS were at its infancy as a result. Earlier GOVIS were built from the requirements of an EIS although the EIS itself was probably designed with management, and not board's requirements in mind. Those EIS were stand-alone systems, with few considerations for how the system would be employed by the directors and management given their current level of governance structure, processes,



and relationship. EIS are rarely used today in NGOs because they were not designed with the board's requirements in mind (Rochart and DeLong (1988, 153), and frequently need amendment because the environment changed too fast for any static system to cope with. The critical success factors that fostered (and which were missing) in the development of EIS were:

- A board that understands how to operate the system;
- A committed and informed executive sponsor;
- An operating sponsor geared to the delivery of the system;
- Simple to use with drill-down capabilities;
- Timeliness of the data;
- Clear linkage to the business objectives, critical success factors, key performance indicators, and funding agreements;
- Management of the resistance to adopt the technology;
- High level of user involvement and training at both the management and board levels; and
- A board that is willing to spend the time to learn about the parameters and assumptions behind the system.

With GISDER, the board would be able to follow a systems methodology in identifying their key areas of weaknesses in governance in terms of structure, processes, and relationship, and install systems to strengthen governance as a result. GISDER imposes a requirement on the directors to frame the information system themselves; and not take for granted what management has designed. The Information system is a by-product for GISDER.

Before GISDER, the development efforts for enhancing boards were piecemeal. For example, board level assessment instruments were beginning to be

available in the market in late 2002, such as Standard and Poor's Governance Scorecard but these were indicative tools, not systems with remedial processes and tools and did not incorporate change management considerations. Considerations for how the directors would use the system, learn to use the system and modify the system due to environment changes were not evident.

In most cases, the board would simply rely on the systems as designed by management, without considering any agency risks (Jensen, 1993). Recent revelation on the need for managerial succession planning (which is a board and typically not a management requirement) indicated that the information demanded by the board might not be the same as those demanded by management. Before 2000, NGO boards in Hong Kong did not need to know how to modify the parameters in the system because the government had imposed input control on virtually all resources. The NGO boards simply needed to follow the government mandate. With input control lifted, as an effort to allow greater flexibility to each NGO, the board would need to know how to modify the parameters themselves (SWD, 2002).

Through the search of literatures and a review of the products available on the market, the research engineer was unable to locate a similar tool or methodology that would jointly develop the GOVIS with a systems thinking and change management underpinning.

Overall, innovation was further demonstrated by the following aspects:

- Acceptance by the Education Department of Hong Kong to accept an earlier version of this new methodology in helping school boards understand their governance responsibilities and operational requirements to bring about a stronger level of independent governance



(refer to the submission to the Education Department on the role of School Managers ).

- Acceptance by the editors of Integrated Manufacturing System Journal on one component of the control dimensions “innovation” in “Innovation as the Basis of Ownership and the Creation of Wealth” and which introduced the concept that innovation is fundamentally linked to ownership and that directors who are agent of owners have a function which is to find and nurture innovation in an organisation (refer to the personal profile submission);
- Incorporating suggestions by recognised experts in corporate governance into the framework and recognition by fellow international experts in corporate governance and information systems that the methodology and framework was innovative (See the list of academics and professionals in the acknowledgement section);
- Acceptance by the editors of the academic journal, Corporate Governance International, for publication of the general framework for NGOs in March 2003 (Li & Bal, 2003); and the Company Secretary Journal in February 2003 on empowering corporate governance with IT and the introduction of GOVIS (Li and Chan, 2003).
- Acceptance by the market whereby an NGO sponsor which oversees all government funded social welfare NGOs in Hong Kong, the Hong Kong Council of Social Services (HKCSS), in adopting this new methodology in a governance consultancy work in the introduction of a new management audit system for 10 pilot NGOs starting October 2002;

- Acceptance by HKCSS to introduce the audit system to an additional 27 agencies throughout Hong Kong; and
- Acceptance by the directors and their Chief Executives of the 10 pilot NGOs of a modified GISDER framework through two independent training sessions held on 30 November 2002 and 14 December 2002.<sup>17</sup>

This work undertaken has been innovative in the sense that engineering disciplines, cybernetics and systems thinking have been applied to the corporate governance work of NGOs. That is, bringing in the discipline and rigour of engineering to human activity systems and processes that had not previously been rigorously designed.

### 9.1.1 Measurements of Success and Validation

This section will highlight the facts that GISDER has had some level of validation despite its infancy. On the usage of the methodology, supporting evidence thus far pointed to a complete acceptance of the framework by the participants, due mainly to ease of use, applicability, and relevance. The MAS, a product from GISDER, is still being tested and consultations with the agencies have been fruitful. Validations of the MAS self-assessment questionnaire will take much longer to achieve, beyond the scope and timetable of this research unfortunately. However, the process has been designed such that the committee overseeing the assessment work, known as the MAS Committee in each agency, would play a check-and-balance role, validating the results and the interpretation of the results before they are accepted by

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<sup>17</sup> The evaluation results of the workshops have been included in the last submission, which is using GISDER to develop a management audit system for 10 pilot NGOs.



the Board and thus become an actionable plan for the subsequent year. This process has been applied and because of the involvement of the MAS Committee, the board now have a much better understanding of the evaluation process on the performance of an agency<sup>18</sup>.

How a methodology was applied in a particular organisation, repeated in other projects and accepted by clients, would be an indicator of the success for an information systems methodology according to Avison and Fitzgerald, (2001). In this respect, GISDER has been successful as it was accepted by the clients and the model has been repeated for 10 NGOs.

However, there is no one best way to assess whether one IS methodology is better than another, without due regard for the context which is different each time (Checkland, 1999). Although GISDER had been designed as a framework with a set of required components, the components could be amended to the unique situation at the time. GISDER was used to review and develop governance systems for NGO, which ranged from having just 30 employees to over 10,500 employees; and the level of control and flexibility was determined by the board, and not limited by the methodology itself.

Davis (1982) with his contingency approach focused on how well a methodology would minimize uncertainty as an evidence of success, that is, how well it would meet the requirements without allowing unanticipated failures. His evaluation method looked at how well the system could withstand disturbances to the system due to the complexity of the context, the state of flux of the system, the number of people affected by the system, and the level of skills of the analyst needed to develop the system using the methodology. Based on this evaluation approach,

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<sup>18</sup> Please see the final submission, entitled "An Interim Report on the Development and Demonstration

GISDER had been designed to manage the complexity by helping the directors to pre-select control dimensions, by allowing the boards to reset these parameters on a regular basis, by minimizing disruption to current information distribution as paper-based inputs are also allowed, and by fostering the facilitation skills of the analyst to derive the system. In these respect, GISDER was a success.

One of the most applicable tests of innovation as a measure of success are market acceptance – but this is affected by the price of the methodology and the expertise of the consulting team in employing the methodology. The methodology is currently provided to clients. Although inconclusive at the time of this report, 10 NGOs were supportive of the methodology and formally accepted the process for evaluation. In this respect, GISDER has been successful thus far. It was chosen over other methodologies in the development and design of a governance and management audit template for the Hong Kong Council of Social Services. Nevertheless, for the product to be continually successful, the methodology would need to be continually modified.

Although future acceptance of the proposals in which the methodology was employed would be an indication of success as well, it is not a necessary condition as there are other factors that would affect client's acceptance. One is the level of understanding of the client; another would be the price of the consultancy assignment.

Judging the success of methodology can be difficult however. In terms of the relevance of the methodology, one or more approaches may be applicable and this would depend on the circumstances according to the contingency principle (Davis, 1982). Even if the same set of variables were studied each time, the outcome from applying a methodology would still be different, as one cannot isolate the influence of

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of the New Management Audit System for NGOs using the GISDER methodology. “



the developer, the client, or the situation. The people component has made the situation much more complex. Secondly, the nature of methodologies is that they tend to be unstable, continually moving and refining themselves. One school of thought has been that comparing one methodology with another when each is on its own path of improvement without a reference framework would be nearly impossible (Avison and Fitzgerald, 2001)

There are a number of frameworks used to compare methodologies nevertheless. Using the Normative Information Model-based Systems Analysis and Design (NIMSAD) framework, which is based on the systems thinking paradigm, we could evaluate the GISDER methodology by these three elements (Jayaratna, 1994):

1. The problem situation or whether the methodology fits the context such as the client's understanding;
2. The intended problem solver or whether the developer finds the methodology appropriate for his use based around his own personal constraints; and
3. The problem solving process or whether the way in which the methodology supports the parties in clarifying boundaries, deriving logical designs, and implementation of the new system.

Based on Jayaratna's recommendation to assess this methodology in three stages -- before intervention, during, and after -- the author had some albeit limited success. The "before intervention" could be analysed in terms of the acceptance of proposals in which the methodology was employed. Uptake of any new methodology inevitably would take time. At this stage, the author was able to undertake the initial three phases for the 10 NGOs using GISDER. Further work would be needed on other NGOs and even non-NGO boards before the answer can be definitive.

Some authors argue that a key measure of success for an IS methodology is repeatability (Avison and Fitzgerald, 2001). In engineering terms, the GISDER approach should provide the means of verifying the completeness and correctness of analysis and assumptions at each stage of the development process; thus allowing the processes to be repeated. In information system, this test of repeatability however is difficult to ascertain, with reasons as cited above. What could be argued was that such methodology would minimize the degrees of freedom a developer would have, and as such, would help strengthen the process of engineering (Avison and Fitzgerald, 2001). From this perspective, the GISDER methodology has been repeated in a series of different situations within the NGO sector. A wider application in other sectors would enhance its acceptability.

There are a number of other ways to assess a methodology other than through a systematic perspective. An evaluation of methodology is bound to be subjective and can be criticized on various grounds based on the philosophical position and assumptions taken. Nevertheless, from the review of the literature, we could summarize the “appropriateness” assessment by considering these other factors in evaluating GISDER, after GISDER had been applied (Avison and Fitzgerald, 2001, 422):

1. **3E's:** whether efficacy, efficiency, and effectiveness of the organisation have been improved as a result (Wilson, 2000)?
2. **Acceptability and functionality:** whether it fits the organisation culture and is understood by the clients (Mumford, 1981)?
3. **Availability:** whether users can access the GOVIS when and where required?



4. **Clear deliverables:** whether the deliverables were clearly specified at each stage of the process?
5. **Cohesiveness and integration;** whether there was an overall integration with the subsystems, including other business systems?
6. **Compatibility:** whether the new GOVIS fits with existing systems and other parts of the organisation?
7. **Documentation:** whether sufficient amount of information was available to help users, developers, and operators use the system?
8. **Ease of learning:** whether the CCCs, as developed, could help users learn about governance and modify their control parameters?
9. **Fast development rate:** whether the systems were quickly configured, relative to its size and complexity?
10. **Implementability:** whether the systems were implemented within context?
11. **Low Coupling:** whether modifying the main GOVIS has had a subsequent effect to modify interrelated subsystems?
12. **Maintainability:** whether the system requires substantial maintenance before breakdown and able to continue to meet changing requirements over its lifetime?
13. **Portability:** whether the GOVIS ran on new equipment?
14. **Reliability:** whether the outputs were consistent and correct?
15. **Robustness:** whether the system was fail-safe?
16. **Security:** whether the system could withstand unauthorized abuses and misuses.

17. **Simplicity:** whether the system was clear, simple to understand, and complexities minimized?

18. **Testability:** whether the system could be tested before a full launch?

19. **Timeliness:** whether the information system could operate under normal, peak, and quiet conditions?

20. **Traceability:** whether a means to check for non-conformance could be designed into the process and errors traceable?

21. **Upgradeability:** whether the system was easy to modify, upgrade, or delete?

In summary, the best test of acceptance is having clients engage this methodology in developing their own GOVIS, and to see whether the system is still being used several years down the road. The last test is difficult given the inherent novelty of the application. How GOVIS has been used to strengthen information distribution, organisational learning, and learning for the directors and thereby raising corporate governance will need further research and validation.

### **9.1.2 Creating the Application**

This methodology was developed to provide consultants with a change governance and management framework and IT/IS development plan with clear deliverables, so that the consultant can deliver to the IT system changes which are dependent on the existing governance infrastructure and arrangement of the client. Because of the need for NGO boards in Hong Kong to be self-governing, the boards demanded not just an assessment, but a self-adjusting system reinforced with a system of checks and balances and learning paradigms for the directors. A review of the



literature and discussions with corporate governance practitioners further indicated that there is a lack of research in this area (Chen, 2002; Cheng, 2001; SWD, 2002; Tricker, 2002) and which further prompted the necessity for this research.

This methodology has a built-in process to encourage directors to learn about their environment and the new balances they need to maintain as a result. The methodology was built upon trial tests with schools, hospitals, and social welfare centres, over a period of five years from 1998. The methodology can probably be applied to larger for-profit entities outside Hong Kong but the framework of governance for such type of firms in their countries would need to be taken into consideration.

The context created the opportunity. The environment in Hong Kong for NGOs at that time was conducive to the enhancement of corporate governance, with the Financial Secretary of the HKSAR announcing to the community his vision for the installation of a robust system of governance, to world's standards, in the year 2000 (HKSAR, 2001). This subsequently led to visible support by government departments, NGO authorities, and publicly listed companies. Specifically, a large part of the development could be attributed to the Hong Kong Government's own initiative to improve the governance of both for-profit SMEs and NGOs in the years 2000 and 2001 (SME Committee, 2001).

### **9.1.3 Exportability**

The sector specifically reviewed was NGO boards. Opportunity arose in this sector, as there was evidence that governance of NGOs needed significant enhancement. The solutions that would bring about this enhancement were untested; and each needed to be considered in depth before a system that would integrate

learning, control, cybernetics, information systems, and governance could be developed. The assumptions and features were refined and tested over this period, through client feedback and consulting assignments in the form of action research. One difficulty was identifying which sector to focus on, as each sector had a slightly different perspective on the urgency and the need to introduce control systems. The issues became clearer as additional projects were later added to the pool. The first project dealt with schools, another with a hospital group, one with a large health and social welfare organisations, and finally 10 NGOs of varying sizes. As a result, the methodology slowly moved from a narrow focus to one that would be applicable to wider NGO sectors.

These 42 NGOs had a number of characteristics which were different from their for-profit counterparts and which were overall more restrictive. Therefore, the possibility that the methodology can be applied to non-NGO boards exists. These characteristics included:

- The lack of a single parameter such as profitability to measure its performance;
- A relatively higher level of demand for the board to provide accountability by directors who were recruited based on their good intention first and competence second;
- A lower level of board attendance as the role of directorship is unpaid and voluntary;
- Non-experts in the field governing professionals and management who are;
- Added complication with the addition of the board's sponsoring body which translated to majority control in the boardroom;
- The absence of a robust infrastructure of governance such as the presence of audit committees and processes of governance such as risks analysis; and



- The absence of a strong regulator such as a local stock exchange in ensuring compliance with listing rules and codes of good governance.

These characteristics were not unique to NGO boards however, and could be seen as appropriate for other boards where the level of governance maturity was similar: SME boards, young for-profit boards in China and elsewhere, and even for-profit boards in general. These characteristics would be similar for the for-profit sectors where such mechanisms had yet to be implemented and GISDER would be deemed exportable in this regard.

A series of problem situations concerning governance had been identified during 2002 outside Hong Kong, for which there were no discernible solutions. The governance problem with Enron, WorldCom, Tyco, and many others led to a general dissatisfaction with how governance had been applied in the United States. The system of governance had broken down for these organisations. The strength of GISDER lies in its systematic approach, which would highlight governance problems associated with organisations, for different types of organisations. Although GISDER might not have prevented the demise at Enron, where the main crux of the problem had been a series of ethical problems which apparently was condoned by the board (Elson, 2002), it would have at least brought the board to a higher level of awareness.

#### **9.1.4 Transfer to Engineering and Application as a Diagnostic Tool**

Many engineering organisations do operate under an NGO charter. For example, the Hong Kong Productivity Council, many technical universities, the vocational training council that trains craftsperson and technician in civil engineering, electrical, and mechanical are NGOs. GISDER is a methodology. To create a GOVIS for an engineering firm, two options are possible. For engineering firms that are NGOs, an option would be to simply apply GISDER and add an extra component,

“Engineering Operations,” to the core set of 15. The component would be designed using five attributes as explained in GISDER. For engineering firms that are not NGOs, the second option would apply. This would be to recalibrate the 15 components such that they are in line with the for-profit sector motive, reflecting the profitability and processes of such businesses; and this would be done by a systems developer. However, one would need to bear in mind that the fundamental concepts behind GISDER is the design and development of a governance infrastructure for responsive and flexible organisations, and these conditions hold true for the profit-seeking sector as well.

GISDER has a number of common tools, and these tools can be applied to understand the degree of maturity in an engineering management system. Applicable to the engineering aspects would be these tools: management components, position report, assessment report, and most importantly the scoring scheme. These tools can be adapted to fit any engineering organisation because any organisation would have processes and these are process tools. The processes, which provide a guided level of checks and balances, had been modelled after similar proven processes within the European Business Excellence Assessment (Lascelles and Peacock, 1996), the Baldrige Model (Baldrige, 2003), and the Hong Kong Management Association Award (HKMA, 2003). Whereas the scoring scheme was modelled after the maturity scale in IT Governance Institute’s Control Objectives for Information and Related Technology (COBOT) (IT Governance, 2002). COBIT has had extensive applications in engineering environment in identifying the level of risk exposure. The scoring scheme under GISDER runs parallel to the schemes described above. Annex B provides a comparison.



### **9.1.5 Implementing the Application**

The applications were developed and implemented in a piecemeal fashion at first. New tools such as the Mentor's Roundtable, framework such as the Control Dimensions, training programs on corporate governance were developed out of sequence, and were applied as and when appropriate. Sometimes with one project, the Mentor's Roundtable was purposely combined with other applications to ascertain fit and modularization. This was needed to test the validity of each of the key applications based on real life situations when the opportunities presented themselves. These applications were later integrated to form the methodology presented here. Different tools and techniques such as rich picture or Checkland's Soft Systems Methodology (Checkland & Scholes, 1991) were used at different times, due mainly to the particular needs of the clients at each stage of those projects, and due to the need of the research engineer to test a particular combination of factors of governance.

The Maturity Scale used in GISDER can be applied to other systems as explained earlier.

### **9.1.6 Results of the Implementation**

Since this is an innovative methodology that is considered proprietary at the time of writing, it is difficult to gauge the wider significance of the application, as only a few clients have used this methodology. Portions of the methodologies have been applied in some of the author's past consultancy projects. Others had been incorporated in official submission to the portfolio. The development of the control components was accepted by each of the clients, and the earlier development of the control components for 30 school boards have been implemented into the Hong Kong school systems where subvented secondary schools must install a new board structure

(HKGGOV, 2002). The outcome of the intervention through GISDER would be a higher level of governance awareness and practice, although this is difficult to define in practice. However, a lower level of problems, i.e., a lack of news regarding scandal in the Schools system could be regarded as a sign of success. There is no requirement that dictates the actual development and installation of a governance information system, following on from such intervention because the school board carries the final decision and authority on installation.

The 10 pilot NGOs have just begun introducing the management audit system and should begin to see a better identification, recognition, and management of the risks faced by the NGOs. This confirmation however cannot be ascertained within a few months, or attributed specifically to an improvement in governance within a few years. As stated earlier, explicit proof is difficult unless transparency is higher and controlled experiment can be entertained. This assessment is made more difficult by the fact that the longer the time horizon, the more difficult it is to attribute success specifically to the introduction of GISDER. Acceptance of the deliverables would substantiate the successful implementation of the GISDER methodology.

### **9.1.7 Further Literature Review**

Throughout the project, literature reviews were conducted to assess whether ideas in other disciplines, other contexts, or past methodologies could be applied. A final literature review was done to ascertain and validate the components, and as a result of this review, the components were amended to form the 15 final ones (NCNB, 1995, 2000). The control components identified what are the functions of the board. Oster and O'Regan (2002) confirmed the components in their working paper on the structure and composition of non-profit boards, but the paper also helped to bring higher importance to fundraising, whereby they labelled fundraising as philanthropy.



Turnbull's (2002) personal feedback provided the context that board structure should be considered separately and this gave rise to the governance infrastructure factors, separately from the governance control components. That is, governance infrastructure factors like decision-making are not a distinct function of the board but a process in which the components are considered by the board. Greer and Hoggett (1997) reinforced the notion of setting a boundary between governance and management, and clearly advocated that the board stay away from meddling into the management realm. They even advocated a phased-approach towards self-governance of public organisations, firstly giving the CE of small and medium public enterprises more authority and less interruption. This supported the idea of a three tier grading for the components because not every NGO has an urge to improve their "knowledge management" system.

A review of the literature on complexity suggested that by defining roles in complex social organisations, the structure could be deduced (Lewin, 1993). This gave insight to the research engineer on the need to clarify the roles or functions of the board before the confirmation of the components, and the identification of the governance infrastructure. The sequence of development as identified in GSIDER did matter.

Lam and Perry (2002) proposed in their article that NGOs or the voluntary sector needs to create a buffer from government intervention by creating self-governing mechanisms to resolve market imperfections. The urgency and the need for self-governance were timely. Indeed, the HK government has provided the incentive through its lump sum grant strategy in 2000 and provided the context with which NGO boards can take on this self-governance initiative.

### 9.1.8 Implications for Use

The framework could be applied by overlaying it on the present governance system of the NGO that is under review. This could be initiated through a systems testing. One way of testing the system is to conduct a thorough review of the governance infrastructure and functions of the governance system. Here the chairperson or his representative is asked to conduct a self-evaluation first, using some assessment instrument. The output would indicate to the consultants what level of understanding and updating needs to be made; the extent of the gaps; and the tiered phases of change. Another test is to initiate an external shock into the organisation, which could be in the form of an in-tray exercise that is used by psychologist to assess competencies, on some hypothetical situation. Another test would be to review how the board would be able to handle critical situations that had happened at say Enron. These are essentially ways to test the robustness of the governance information system.

The corresponding new information system that would be developed would follow the broad requirements of the organisations strategic intent. That is, towards an identifiable form of governing and control system. The system is evaluated against the presence and working effectiveness of these parameters:

- Detectors (the Honorary Treasurer or the Chairperson as auditor for example);
- Assessors (the Audit Committee for example);
- Effectors or Adjustors (the financial controller or CE for example); and
- Communication Network (the system of governance).



A review of the communication network is made at the initial stages, looking at the interlocking committee structure and considering how decisions are clarified with each cascaded discussion upward to the full board.

Having done this and identified the broad approach for the development, the next phase would involve the creation of a set of performance indicators and the monitoring system for them. These indicators have to be defined, tested and standards set in place.

### **9.1.9 Proposals for Further Extension of this Work**

The present research effort has revolved around NGOs, where the systems of governance would need a stronger level of oversight due mainly to the part-time nature of the directors, weak management of knowledge and learning for directors, and the unclear ownership roles of the board. In the future, this new methodology would need to be calibrated and be adapted for organisations outside the NGO setup, including SMEs, for-profit organisations, and listed firms, thereby extending the applicability of this methodology to a much wider audience. The level of governance at NGOs is actually much laxer than listed companies, probably to the same extent as SMEs. Thus, it maybe easier to apply GISDER to organisations listed on a stock exchange due to their stronger framework and compliance to governance. The additional requirements for listing would need to be considered.

The essence of GOVIS is decision making based on appropriate amount of information, and having made those decisions, distribute them to the appropriate parties with a need to know. Workers in the organisations need feedback and information from the board for alignment and support. When GOVIS is working properly, the channel of feedback is actually both ways; from board through to front

line; and visa versa. Proper distribution of information would aid learning appropriately. The decisions made and the context in which they are made can be replicated into cases and be used in staff orientation (Gundry, 2001; Ackoff, 1999), thereby reinforcing the agency's culture and learning.

The considerations and steps that would permit this new methodology to gain wider acceptance, adaptation, and usage would include the following steps and additional resources:

- **Raising awareness:** Promote GISDER through a broad marketing campaign, offering to conduct a governance information review assessment for free – beginning with SMEs where risks are less. GISDER can also be licensed to other consulting firms or written in summary form as the core content for a book on corporate governance systems and methodologies.
- **Raising interest:** Identify the patterns arising from future adaptation and publishing a report in a leading journal on such patterns (Li & Bal, 2003).
- **Raising desire:** Providing an infrastructure through internet or DVD arrangement whereby potential users can access the methodology on a trial basis. The trial evaluation can be credited towards the full service. It may be viable to create a prototype of a DVD where some of the functionalities can be replicated, manually or using the Internet. Engineering specifications for such a prototype have been created. This of course would be ready when the market is ready; that is, when directors are required to use this technology.



- **Raising action:** Structuring the methodology in a training program and selling such training as a part of the total package.
- **Extending advocacy:** Developing a marketing program for existing clients to sell to their other boards. The interlocking nature of directorship provides an effective channel for cross selling.
- **Creating a simulation:** Once the control dimensions are constructed and calibrated, and normal values are established, a basis for creating a simulation is possible. Using general living system simulation as a foundation and with the permission of a NGO, the research engineer will explore with the NGOs the feasibility of creating a simulation program with DYNAMO, a computer package developed by Forrester (Skyttner, 1997) or similar learning systems to create a learning environment for directors.

Another way in which the work could be extended, would be the further extension of the methodology, to cover the entire systems development process from strategy to turnkey system. This may strengthen the methodology but would not be possible without a much longer period of testing and refinement.

## 10 Conclusion

This innovation report provides an IT systems development and change methodology for the improvement of an organisation's governance information system. This report answers an important question for systems developers, namely, "how can a self regulating NGO board of directors develop its own information system of oversight over management?" In this section, the research engineer provides his closing thoughts on the subject.

### 10.1 *Beyond NGOs*

The report outlines the development of a process methodology to design and develop Governance Information Systems (GOVIS) for boards of directors, specifically NGOs that are staffed with non-executive directors in the majority. Understanding how NGOs could be better governed would provide a better understanding of the applicability of the derived methodology for other types of organisations as well.

NGOs were used because of the context for higher level of self-governance as evident in the Hong Kong Government's establishment of the Lump Sum Grant. Governance over NGOs in many ways is made more difficult than for publicly listed organisations because of a number of reasons as cited previously. For-profit boards are much more transparent, have clearer accountability driven by a profit motive, and supported by a set of robust and clear governance requirements of the local stock exchanges especially for those that are listed. Based on these factors, the system and the new process methodology as developed would be applicable. The components may be different, but the processes needed to develop a GOVIS should be similar.



With higher level of resources and clients who are typically more demanding, the systems developer will be asked to deliver the systems specification.

Hong Kong, as one of the centres where rapid changes have taken place and where self-sustainable NGOs are descendents and variants of the state-owned enterprises in mainland China, was used as the test base. This is favourable to the research engineer's company given that the state-owned enterprises are going through a series of privatisation efforts where devolution of governance authority is increasingly given back to the organisation's own board. The process methodology should be quite applicable for the Chinese economy where an understanding of governance is not assumed (Lee, 1991).

## **10.2 *A Question of Balance***

Effective corporate governance requires an effective board of directors. Boards that are self-regulating and self-learning principally follow the rules of cybernetics. Balance is a central theme behind self-governance but finding and maintaining this balance is difficult to carry out. There are several key areas needing balance.

Firstly, the system of governance needs to be in balance, between conformance and performance (Tricker, 1994, 2001). However, so much of the literature and recent initiatives by authorities have been on conformance and compliance, albeit relying on codes and guidelines rather than strict rules. The primary reasons that organisations are formed, other than to reduce transaction costs (Williamson, 1991) is for reasons of continual prosperity and anticipated growth. They would be closed or be sold off when their business is no longer viable. Based on this, the control systems need to be structured for performance, then for

conformance and anticipating the ever-changing competitive landscape. The issue of conformance therefore should carry a secondary objective, not a primary objective.

The boards also need to find a balance between too much oversight (micro-management) and a lack of oversight, as the first would intrude into the managerial roles and the latter would mean they take their governance roles less seriously. The efforts of governance and management are both needed and the key is to find the right individuals to do either, and not both. Identifying the right balance, then agreeing the respective roles that the board and management have to play, has been an important step towards balancing the power and responsibility.

When the system is imbalanced, adjustors must put the system back into balance and these adjustors may be the directors themselves, the CE with or without assistance from the consultants. When the homeostat or self-governance control system is not ready, outside intervention is sometimes needed and this is where board consultants can and have played a role (Werther and Kerr, 1995).

For many NGOs, the learning behaviour of directors cannot be assumed and one simply looks at the relatively low attendance level of board meetings to assess their learning effectiveness. There is no governance and no learning for the individual director when he does not attend board meetings. Because of the looser engagement of NGO directors, the systems for checks and balances would need to be more robust, that is, allowing overlapping layers of oversight in case some of the directors do not show.

With this a background, the nature and balance of control should be considered in light of the maturity and complexity of the organisation. One would not need to impose a complex system of audit committee, remuneration committee and other governance infrastructure along with the support GOVIS when the organisation



is only the size of 30 persons, 3-person board, with a small budget, because there are other channels which formally or informally, taken together, would be sufficient to provide the sufficient level of oversight. Organisations are changing every day, growing or dying each day. As such, the governance system must be modified in light of the “changing” organisation and in such a way that the control does not supersede and curtail the flexibility of management to respond to the environment themselves (Beer, 1966). It is a fine balancing act. The new process methodology has considered this.

### **10.3 Concluding Remarks**

The study of corporate governance is a relatively new phenomenon, with just over a decade or more of research, contrasted with nearly a hundred years on management itself. When management research first begun, attempts had been made to differentiate the work of the managers with the work of the managed (Mintzberg, 1989). Managers were doing something that was different from officers and these included their efforts to communicate, command, control, organise, and plan (Pugh, 1990). Similarly, as we began to explore the work of the board, which had been a black box to researchers, we distinctively identified the work of the board as different from management. In the early days of an organisation, management ran the organisation and the directors were mainly investors and advisors. Although the work of the directors who sat on these boards had a different role, it was not distinctly identified until the early work of Tricker (1980) and others (Fama and Jensen, 1983; Monks and Minow, 2001). The roles and functions of governance were being defined. These NGO boards have a role to play, and their roles are different from those of management.

One could predict that governance information system without a consideration for the development of governance components and using directors as adjustors of the components would probably not work. The development of a GOVIS for NGOs should be facilitated by a process methodology. GISDER was developed as a result.



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**Annex A**

**Good  
Practice  
Guidelines**

# **The Guidelines to Good Practices**

## ***Introduction***

This section contains a working set of guidelines to development. These guidelines have been designed to be used in conjunction with the fifteen management audit components. They have been drafted setting out the broad actions that should be taken under each of the 15 audit components where the assessment process has shown that the organisation does not measure up to the criteria used there.

The guidelines are based on well-established management principles and practices used in the structuring and management of efficient and effective organisations in both the NGO and public sector. They literally contain best practices used in the NGO and government organisations in particular. Amongst these principles are the following:

- Clear organisational goals and performance criteria and plans to meet these goals.
- Policies and procedures that support the achievement of organisational goals and are known and understood by staff.
- A performance monitoring system that focuses on key areas of activity linked to the achievement of organisational goals. A system which pinpoints exceptions to laid down standards and enables appropriate action to be taken.
- Clear accountability and responsibility of individuals for activities and target achievement. And in each case the authority needed to achieve those targets.
- A plan that sets out how the organisation will deal with the loss of key staff. A plan which also shows how the organisation will ensure that staff have the competencies needed to be effective in their jobs.
- Systems and procedures that monitor stakeholder needs and measure the extent to which the organisation is meeting these.
- A financial management system that conducts the organisation's financial planning as part of the overall strategic planning process. A system based on Zero Based Budgeting. A system that monitors expenditure under agreed heads of activity designed to achieve organisational targets.



- The nurturing of innovation through the use of a Balanced Scorecard-type performance evaluation process and which incorporates innovation in the staff performance management system.
- Explicit service standards set out in a Performance Pledge, which is known to all stakeholders. These standards are translated down to the level of the individual staff member and incorporated in the performance management system.
- Management staff are assessed against performance targets and their demonstration of key management competencies. They are trained and developed to perform their jobs effectively.
- Information is widely distributed amongst the organisation's stakeholders ensuring that damaging rumours are minimised and staff morale is kept high.
- The organisation has a performance management system that links performance to reward and deals effectively with the poor performer.
- A system for capturing the learning and experience of individuals within the organisation and enables others to share this experience.
- A means of managing change whereby staff know what is to happen, how they will be affected and that they will be consulted over the implementation of changes that affect them.
- Key risks are identified, monitored and contingency plans put in place to deal with problems that may arise in these areas.

The assessment team as well as the MAS Committee should consult this guideline in putting together the action plan for improvement. This is only a guideline and will have its limitations due to the broad coverage that must be provided. Guideline is called because the implementation of good management principles does not fall into discrete categories. They are mutually supporting and integrate with each other to create an organisation that is both efficient and effective.

## ***Format for Easy Reference***

For easy reference, the guideline for each component has been set out in these sections:

- ❖ The Definition of the Management Component
- ❖ Terminology and Key Words if any
- ❖ The Purpose of the Management System
- ❖ The System Features
- ❖ Accountability

- ❖ System Integrity and Review
- ❖ Feedback and Communication
- ❖ System Linkages
- ❖ Recommended Steps for Closing the Gaps

The first section describes what is the system. This is the **Definition** section. The second looks at supportive words that must be used to help define the system, alternatively known as the **Working Terms** section. The third looks at why the component is important. This is the **Purpose** section.

Next, each set is further broken down into the five system attributes. System features, accountability, system integrity and review, feedback and communication, and linkages are presented.

The final section sets out the recommended series of steps that management should undertake to close the gaps: **Recommended Steps**.

## ***Current Good Practices***

For each of the components we have developed a set of good practices in the outline as described above. The following components are provided:

- Strategy Formulation and Implementation
- Policy Structure Improvements
- Financial Management and Funding Adequacy
- Accountability and Transparency
- General Staff Supervision
- Planning for Succession
- Monitoring and Information Reporting
- Performance Management and Measurement
- Managing Service Quality
- Managing Change
- Service Marketing
- Managing Stakeholders' and Public's Expectations
- Managing Knowledge
- Nurturing Innovation
- Managing Risks



# Good Practices in Strategy Formulation and Implementation

## *Definitions*

The strategy formulation component refers to the processes and the system in which the agency's strategic and annual plans are developed, reported upon, monitored, evaluated, implemented, and reformulated. A strategic plan is typically long term (more than one year) and frames the annual and working plans.

An effective strategic plan typically includes the agency's vision, mission, goals, objectives, strategies, action plans, tactics, and resources employed set against some timeline. The strategic plan provides the blue-print for the agency's annual plan that is only one-year in duration.

## *Working Terms*

**Vision:** The ideal view of the future of the organization, set against an environment that has been created by the visionaries.

**Philosophy:** The set of basic beliefs which establishes the parameters for the agency and its establishment. It is a statement of values, of what we believe in.

- Why are we in business?
- How should we conduct our service?
- What do we do and not do as a service provider?

**Mission:** The primary focus of the business which answers the question.

- What do we want to go?
- How do we know that we are there?

**Annual Plan:** A plan for the future, based upon an assessment of the present position of its operations, HR, finance, marketing, staffing, etc. The annual plan, or known as the business plan in some quarters, is created 3 to 6 months before the start of the fiscal year and answers the question,

- What business are we in and how do we in broad terms intend to carry this out?
- Where are we?
- What will we do
- How will we do them in board terms?
- What resources would we be needing?

**Annual Report:** A document of last year's accomplishment set and framed in light of that year's annual plan with percentages of objectives achieved. It addresses,

- How have we done?
- Where have we gone astray?
- What recommendations do we have for next year as a result?

**Strategy:** A method or course of action for dealing with competitors. It can be either proactive or reactive. It addresses this question:

- What we do and what we will not do.
- How we intend to win over our competition
- Who else is in this business?
- How should we relate to our service recipients and our competition?

**Strategic Plan:** A three to five year long term plan which includes all the basic components of the annual plan but at a much higher level. It addresses:

- Where do we like to end up?
- How should the annual plans be integrated and coordinated?

**Agency Objective:** An aim or end of an action; results to be accomplished as framed by the agreed strategy. It answers the question,

- What do we want to achieve?
- What are the critical success factors that will lead us to this objective
- What are the targets so we know when we are there?

**Service Centre/Departmental Goal:** The more definitive targets of the service centres or the departments. It answers:

- Where does the unit want to go?
- How does it know when it has reached there?
- What does it need?
- Who should be held accountable for the delivery of the goals

## ***Purpose and Implication of the System***

The strategic formulation processes and system concern the long-term (i.e., longer than one year) and short-term (i.e., one year and less) allocation of resources in order to achieve agency objectives. Under LSG, resources are increasingly scarce and the agency must come to terms on a set of trade-offs with the resources that it has. A coordinated discussion among the board members, the Chief Executive (CE), and the management team brings about the best means of employing these resources while still achieving its objectives.

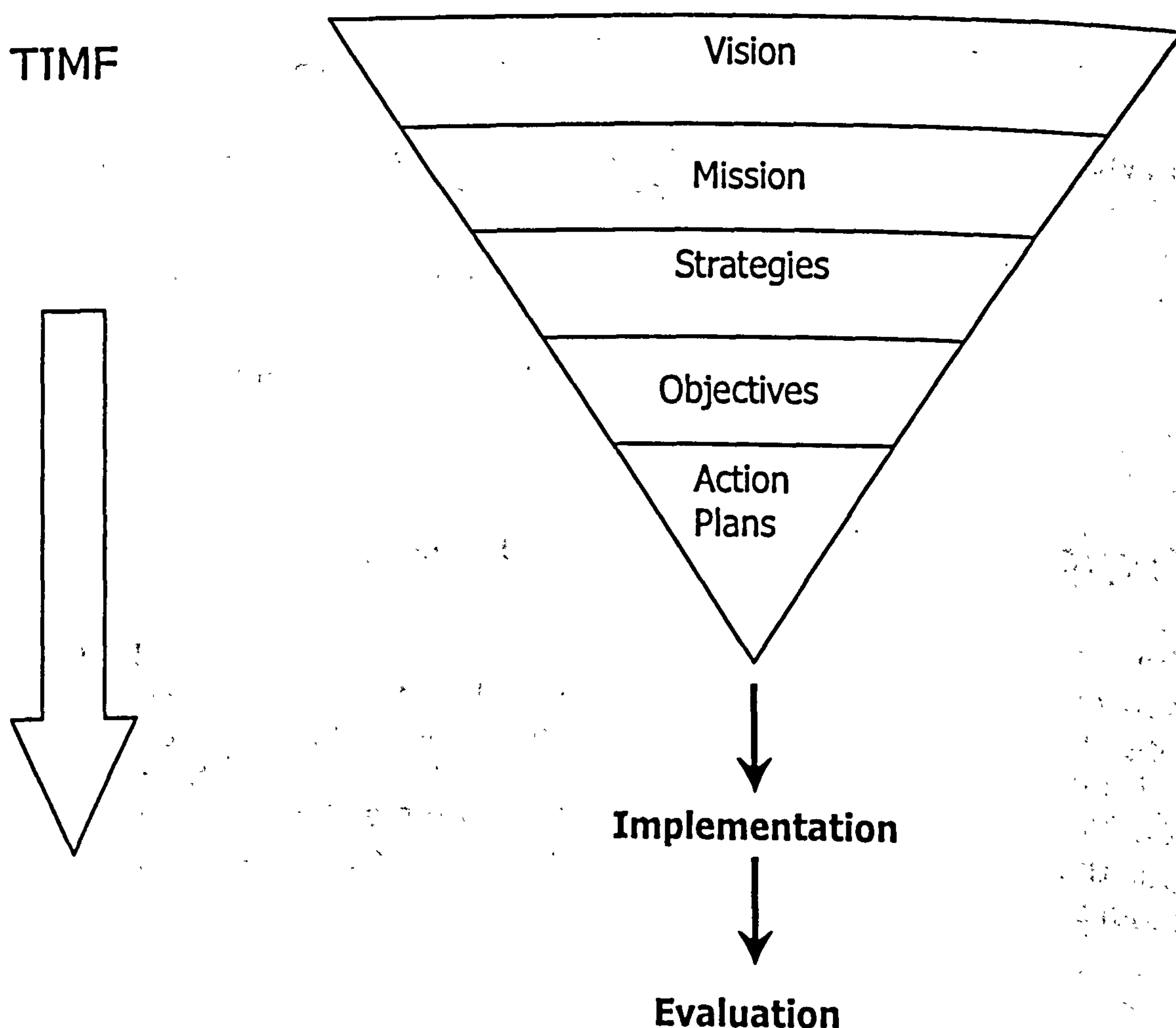


Of all the 15 management components, this is the most powerful and most important one for all agencies to have it done right. Identifying where to go and how to get there are the two questions that the organisation must be clearly answered and acknowledged, leaving no doubts for guessing and uncertainty. This components frame the others.

The formulation and implementation of strategies first and foremost is undertaken to achieve organisational objectives.

## ***System Features***

The process of strategic planning often takes on bottoms-up approach, followed by a top-down approach. The process of involvement builds consensus and strengthens buy-in. The bottoms-up approach begins whereby the CE asks his/her direct report to contribute to the process. Each service centre and department provides the CE with key information, and the CE will draft the first strategic plan. This is discussed and agreed at the Board of Directors level and becomes the plan, which is then distributed to all service centres, confirming the top-down approach that follows. Some organization will undertake this bottom-up, top-down approach in several iterations. The efficient agency does this once.



Best practices would suggest that a good vision is one that is clear and literally everyone can recite the vision of the organization because it is so convincing and clear. A mission, extending from that, should be focused. An agency with six missions has no mission. At most, three mission statements are more than enough. The effective agency has only one mission within a defined timeframe; and changes that mission when that mission has been achieved. Everyone has no doubt what that mission is and even if detailed business plans are not available, everyone knows where they are going and broadly understand their roles in contributing to the direction of the organization.

From the mission, the agency must determine how to bring about that mission in broad sense (strategy) and what milestones they are setting for themselves along the way (objectives). For each objectives, no more than 5 to 7 critical success factors must be identified. These CSFs are the absolute minimum deliverables the agency must deliver in order to remain on course and in the general direction that it had set out to do.

Once there are set, departmental goals arising from these, and even performance targets can be easily identified. An agency that hasn't gone through this rigorous exercise in the proper sequence and attention will find that it is difficult to identify performance targets for individual positions. An inability to develop these personal goals is also a reflection of the unclear message from the board.

A strategy formulation system operating at a best practice level is one that is:

- Implemented, according to agreed blueprint,
- Verified its robustness and integrity independently from time to time
- communicated clearly to the management team,
- monitored for exceptions on a regular if not quarterly basis by the Board,
- linked to the annual plans of which there are three years,
- includes a set of performance objectives with SMART targets,
- coordinated and integrated with the goals of the board, management, department and service centres.

**SMART** targets are specific, measurable, achievable, realistic, and time-bound.

Because the process is clear, reporting now moves onto an exceptional reporting basis whereby only variances or deviations from targets are reported. If the deviations are accepted, no additional reports or meetings are called. If the deviations are not accepted, management focuses their attention on the reasons for the shortfall, and perhaps even re-evaluating the objectives and the strategy. As deviations grow in intensity, one may even find a need to re-evaluate the mission statement. As much as this funnel can be used as a downward focusing instrument,



this funnel also acts as a multi-layered cushion. Each time moving backward one step if the step below is noted to be inadequate. It's that simple!

In developing the annual plan, a bottom up and top down process is often best. Staff are asked to provide initial inputs and these are evaluated and reassessed by the top management for consideration. Having agreed what they are, top management with the board would then provide a framework to the front line. In a properly formulated annual plan, which is one component within the strategic plan that covers 3 years or more, staff are asked to input into a draft plan, then this is presented to senior management for feedback and the development of the second draft. The process is almost exactly the same as the strategy formulation. The Chief Executive takes the second draft and seeks the board's approval, at which time this becomes the basis for the annual plan.

Do remember that entire process should be simple, clear, and outcome and output focused.

- *The simpler the planning process, the more likely it is to succeed.*
- *The process of planning often far out-weights the plan itself. Communication and dialogue is an integral and essential part of the planning process.*
- *The primary benefit of planning is often the process itself; planning is a structured way of involving a number of people in thinking about the future, and this is often an often forgotten value.*

## **Accountability**

This process should be carried out by the Chief Executive and his/her senior management team and confirmed by the Board. The Board is ultimately responsible for the existence and soundness of the plan. The Committees of the Board serves to report substantial deviation from plans that have been agreed by the Board of Director.

The Chief Executive has a heavier responsibility to see that the annual plan has been developed, can be achieved; as often the plans and targets would become the performance target for the CE. This logic continues downward onto the head of each service centre. Consequently, each direct report is responsible for the delivery of his/her performance goals for his/her department.

- *To be successful, a planning process must have the strong support of top-level staff, key trustees, and others of influence in the organization.*

- *Planning should not be left completely to management consultants or to SWD; the CE, his/her direct reports, and the Board of Directors must be involved so that the decisions reached are their own.*

## ***System Integrity and Review***

Because the process of strategic and annual planning produce conflict and anxiety; no one can completely control the outcome of a planning process and this can cause tensions among board and staff. Everybody has a different view of the world and the open discussion will generate disagreement and conflict. Often this is a much better way of expressing one's beliefs than keeping silent and assuming everyone else understand and accept your way of thinking. Nevertheless, this frustrated feeling is further exacerbated with a frustration over the amount of time required in planning process as oftentimes roles and responsibilities in the process itself are unclear. Good practices stipulate a clear role in the planning process. The desire for consensus almost always impedes the planning process. Although it is important to hear everyone's views, it is not advantageous to incorporate every minority opinion into a plan. A ten page strategic plan is sufficient. A 30-page annual plan is about as detail as one would like to get; often a 10-pager would do.

From time to time, the system should be evaluated independently by outsiders such as independent auditors and management consultants at least once every five years to ascertain its robustness and its applicability to other operating systems.

Most importantly, there must exist a culture in place for planning; without it, a planning process has little chance of success.

## ***Feedback and Communications***

The planning process should be integral to the on-going management of the organization but formal review of the plans should be carried out annually with the scenarios reviewed each time.

The strategic plan is reviewed and agreed at the first fiscal meeting of the Board of Directors.

Having set the framework for a direction in the next three years, the board then agrees and confirms the annual plan as presented by the CE as well. Once agreed, the annual plan is put aside as a reference document for the year.



Reports on progress against planned targets on an on-going basis are made formally by the CE and the senior management team on a monthly or at least a quarterly basis. These reports should include a summary showing variation against annual targets where this occurs and action taken or recommended.

Instead of debating new strategies each time, the Board refers to the agreed strategy in the annual report or even the strategy report, and monitor the variations, or exception reports, submitted by management. Exception reports identified the relativity, progress, and deviations to "agreed" targets. Each time a meeting is run, only the exceptions are discussed. If progress is on schedule and the exceptions or deviations are acceptable by management, no further meeting is held because this is no longer necessary. Meeting can be a tremendous waste of time and resources and the effective organizations bears in mind to keep meetings to a minimum.

Reports should be presented verbally to the Chief Executive and supported by formal documentation in an agreed format for ease of perusal.

## ***System Linkages***

The strategic planning process and the resultant reports serve as the overall blueprint for the types of service and extent of service that the agency will be offering to the service recipients. Once the strategic plan is agreed, the annual plan is subsequently agreed and is linked with the strategic plan.

Department goals are then set through this top-down approach and the plans for Human Resources, Information Services, Operations, Finance and Supplies, are linked into this annual plan. What ties these plans together are the resources - financial, human, and others constraints imposed on the agency.

Further, the agency's FSA and SPMS should have a direct linkage to the targets and processes as defined in the strategic and annual plans.

## ***Recommended Steps for Closing the Gaps***

The process of formulating a strategy, whether it is an annual or three-year process would typically be something like this:

1. Describe the way the NGO industry has changed, in terms of the constraints imposed upon it by 6 factors - PESTEL or the political,

economic, societal, technological, environmental and legal factors. Obtain a consensus from the board and the senior management team. This sets the operating framework.

2. Complete a SWOT analysis of the agency, taking account of the agreed PESTEL.
3. Create a set of strategies by combining the Strengths with Opportunities and Threats with Weaknesses.
4. Conduct a competitive analysis.
5. Determine and agree the agency's market and service types.
6. Conduct a simple scenario planning exercise and use at least three scenarios.
7. Set agency-wide objectives for the most likely scenario. This becomes the agency's strategy.
8. Identify the Critical Success Factors that must happen if the goals are to be achieved. The CSF information will be added to the Business Impact Analysis under Risk Management and this will help to identify the extent of risks that you are willing to take for each CSF.
9. Create a plan of action for each department. Department objectives become the goals.
10. Set in responsibilities and reporting intervals

These agency objectives should be determined under the current best practice approach, called Scenario Planning. The purpose of Scenario Planning is not to identify all scenarios, but to prepare management by framing the problem with realistic and probable constraints that someday the agency must face. Many of the more developed agencies have implemented scenario planning exercises. This process involves:

- ❖ Identifying the key variables in the organization's operating environment.



- ❖ Building them into a model that shows the interaction amongst the variables and how they impact upon each other.
- ❖ Inserting into the model those trends in key variables that are known and making assumptions where trends are not known.
- ❖ Working through the model using pessimistic, optimistic and most likely assumptions to produce a series of 'pictures of the future' or scenarios year on year. This is usually done for a rolling three year planning period.

Although scenario planning is an effective method, there is really no one right way to plan; the best planning processes are those custom-designed to fit the needs of an organization and the working styles of board and staff.

The scenario planning process can further strengthen strategy formulation. As a result of the process there should be:

- ❖ A monitoring of key variables in the operating environment.
- ❖ Sets of contingency plans based on each of the possible scenarios within the planning period.
- ❖ Organizational goals that are broken out to Departmental and individual targets.

# **Good Practices in Policy Structure Improvement**

## ***Definitions***

A policy is a set of guidelines on the approach the NGO would take in managing its various resources. A policy typically does not include a set of procedures which are detail steps. A policy, usually created by the board and set in place by the directors, provides the rules that should bound management decisions. The structure with which policies are developed includes the process of information gathering, review, decision, monitoring for deviations, and removal. Policy structure improvement therefore refers to the system in which policies are formulated to replacement.

## ***Working Terms***

**Policies:** Policies are high-level documents. They are based upon the values and beliefs of the agency, the strategic intent of senior management and the board of directors. A policy is a statement of a general course of action designed to achieve a set of stated outcomes.

**Procedures:** Procedures are detailed documents and often contains consecutive steps. They are derived from its policy, which acts as the parent. Effective procedures must implement the spirit (intent) of the policy statement. Procedures must be written in a clear and concise manner so that they may be understood easily and properly by those carrying out the procedures.

Procedures are the formally authorised way of performing a task or set of tasks which people are expected to follow. They usually state how policies should be implemented. Procedures are statements which are specifically focused on a particular activity. Procedures are primarily prepared to maximize the efficiency with which policies are adopted.

## ***Purpose and Implication of the System***

This system of policy structure improvement helps both the board of directors and management by laying down the guidelines on how policies themselves should be developed, updated, verified, implemented, replaced, and discarded. The policies of an organisation are the 'rules under which it operates'. In effect, the internal laws that govern its operations. They are the framework that governs the strategies



it employs and the actions it takes. Policies are quite broad and typically do not include procedures.

Why do we need policies? First and foremost, policies are developed to provide the staff with a framework for reference. Policies are a type of boundary control system, as it sets the boundaries for authority and action that the staff can undertake without continually asking for directions from management. A strong set of policies improves an organisation's flexibility and ability to adapt. An organisation without policies would need to put a huge amount of effort and resources on visible control and management.

Policy states what the organisation's position is on a specific topic or issue, why it has adopted that position and to whom, when and where it applies. Policies are prepared to ensure the effectiveness of decisions made. *The source of most managerial problems can be traced to a lack of quality or rigour in the development of the relevant policies.*

Best practice would suggest that policies for NGOs would most likely be:

- ❖ Developed by the Chief Executive and the senior management team and approved by the Board.
- ❖ Created through a top-down approach, initiated by the Board.
- ❖ Have input from staff in their formulation both to build staff commitment and take account of staff experience.
- ❖ Be communicated to the staff. In particular, those policies that impact on their work and the manner in which it is to be carried out.
- ❖ Incorporate within them and generally conform to the policies of the Government Department under which they operate.
- ❖ Take account of any special circumstances that apply to them and, where necessary, include minor modifications of Government policy.
- ❖ Cover all major areas of operation and be supported by all necessary procedures for their implementation - particularly in regard to legal requirements and the Risk Management procedures of the organisation.

Policies should be written as clearly as possible and targeted for the employees at large. Developing policies for the smooth operation of the NGO has two advantages.

1. From a practical point of view, a set of rules, regulations, and operating guidelines would ensure that there is a standard against which to measure performance and that the board's wishes are being carried out.
2. More broadly, documented policies partially protect the directors from liability as lawsuits are less likely when the directors have taken the time and effort to develop, debate, revise, and adopt policies that demonstrate their involvement in the affairs of the agency.

When should a policy or procedure be developed?

### ***Developing Policy***

The decision as to whether a policy should be developed depends on whether the policy addresses the following questions:

- ❖ Is a policy required by regulations?
- ❖ Is the development of a policy the appropriate response to an issue or circumstance?
- ❖ Is there a health and safety issue?
- ❖ Is there a program need?
- ❖ Is there an operational need? Does the situation repeat itself, if so, a policy is often needed.
- ❖ Is there a governance issue?
- ❖ Are there financial implications?
- ❖ Is there urgency? Is the issue important?
- ❖ What are the implications of continuing with the status quo?
- ❖ What is the practicality or feasibility of developing a particular policy?

A NGO should not develop policies when:

- ❖ A procedure will do.
- ❖ A policy already exists which would lead to duplication and confusion of authority.
- ❖ There is no commitment to the issue.
- ❖ There is not a clear course of action or purpose.
- ❖ There is not a clear audience for such a policy.
- ❖ The cost of policy design and implementation is not commensurate with the



benefits of developing such a policy.

### ***Developing Procedures***

Similarly, an agency should only develop and/or adopt a procedure when:

- ❖ It has a related policy
- ❖ It has systems (business/IT/HR) to support the procedures
- ❖ Certain activities have to be practiced in a certain way to avoid, e.g. risk, cost, safety breaches, breaches of legislative requirements, and time wasting

A NGO should not develop a procedure when:

- ❖ A policy alone will do
- ❖ An existing, relevant and appropriate procedure already exists
- ❖ Agency can't agree on the best and simple set of procedure - when there are too many solutions/procedures to follow already in place. Simplicity is best.
- ❖ There is little/minimal risk
- ❖ There are no efficiency gains
- ❖ It is not worth the cost of doing so

## ***System Features***

What should be included in a policy? What is a policy?

Policies are high-level documents and rarely do they contain procedures. Policies are not business plans; which are written plans that are made to anticipate competitive actions and changes in the environment, with dates and targets. Policies are more like guidelines that would frame the solution set. Changes in legislation such as equal opportunity and employment, the handling of sick and infectious patients, or other new social welfare requirements would need to be translated into working guidelines. A NGO is liable for not putting in place legal requirements of their service offerings.

Policies are likened to the rules of the game. Once set, they should apply to everyone alike and no one is above such policies. Similarly, no one is above the law of the land. Exception is only possible following strict rules of protocol and confirmation by a quorum of the board. Like rules of engagement they are laid down by the board with the help of the CEO and put in place to guide employees.

Policies serve as reference points when procedures and programs are being developed. They help to define how things *are* being done and *should* be done in NGO. Each policy should be customized to fit the organisation and its changing business and servicing requirements. Hence, all key resources of the NGO would

have a corresponding set of policies.

Essentially there are two types of policies – policies of the board and operational policies of management. For smaller NGOs, they are one and the same. For larger ones, they can be different as the management policies would tend to change more often due to the continual changes in the environment, reflective of the service demands placed upon the organisation. They differ mainly in terms of level where board policies are at the highest level. Board policies do not change as often and typically they have a life of five years or more.

The procedures, which are the detailed portions contained in each policy, would be developed by the executive management team in line with the policy as decided by the directors. It is assumed that the directors should not be actively involved in the development of procedures as this is outside the time and role of a director. Nevertheless, the directors are responsible to ensure a policy can be enforced through its procedures.

A policy has several important sections and they are listed below. At the minimum, a policy should have items one through four in place. They are:

1. Spirit or Purpose of the policy. Expected results or the expected impact that the policy would bring.
2. Time, scope, and context in which it would apply.
3. Responsibility – or which departments or personnel would be affected – and accountability (who is the keeper of the latest version?).
4. Main guidelines or the main set of references that departmental procedures should adhere to.
5. Key system components or the related policies that are somehow linked to this policy.
6. Verification or how the policy would be verified.
7. Modification timeframe or how and when the policy should be amended or discarded in view of continuous improvement.

## ***Accountability***

The board of directors is ultimately responsible for the existence of a clear set of policies. Executive management may develop policies, but it is the directors' responsibility to ensure that policies exist, are adequate, and are being followed at all levels in the agency. In reality, policy development and compliance is often delegated to line management.



Enforcement of policies is ultimately the remit of the CE.

Line managers in each department, section, or service centres within the organisation should undertake the monitoring of compliance with policy on a day-to-day basis. This is the first line of control.

Internal auditors are used to assist management in monitoring and reporting deviations from policies. This is the second line of control. It is important to note that the ultimate responsibility of policy compliance belongs to the individual managers.

More formally, senior managers and ultimately the Chief Executive should be kept in touch with compliance through the regular monthly performance and action reports they receive. These reports should cover deviations from laid down policy and the reasons for these deviations.

The decision to accept any amendment would rest with the committees that use them and *ultimately* with the Board of Directors. Prior to the agreed changes to any existing policies, the existing policies would apply and all requests for exceptions to the stated policies must be made in writing. It is the concern of the relevant committee to accept or reject those requests for exceptions.

For NGOs that do not have committees of the board, then it is up to the individual heads of department and the Chief Executive with the support of their Honorary Treasurer to review these policies from time to time. In many NGOs, it is often the role of the Honorary Treasurer or the Secretary of the Board to ensure that policies exist, updated and relevant, and sound.

## ***System Integrity and Review***

The formal review of policies should be undertaken as a part of the annual planning process. As in all systems, eventually the components of the system will need to be replaced. Policies need to be updated because of new technology, new practices, and significant improvement in business processes which may render the policy ineffective.

It is the responsibility of the Board of Directors to develop and remove policies for each of the core functions. Sometimes these tasks may be delegated to management, but it is *the board that would be held accountable for the existence, relevance, integrity, and removal of a set of working policies.*

## How should policies be developed?

There are no set rules as to how the policy would be developed, however, and it is up to the board to decide. Typically, to facilitate the process of development, the board would initiate the process to identify which policy to develop. This is then passed to management whereby management is asked to draft the first working set of the policy for discussion at the sub-committee level. This is then amended following discussion by the committee, and is then recommended to the Executive Committee and the full board for endorsement. Once endorsed, the policy becomes a formal policy for the subcommittee or the agency.

In dealing with the development of policy and policy issues at different levels, the board should observe these principles:

- ❖ the board should focus on the broadest and largest policy issues
- ❖ the board should delegate the development of the procedures and the enforcement to the Chief Executive as much as possible (to be verified by the auditor or the audit committee), and
- ❖ the board will deal with lesser issues only when management has failed to address such lesser issues. This means the board must have the mechanism to know when management has not followed such policies.

## Is the system working? When should policies be discarded?

The spirit of policy development should be simplicity. Simple, straight-forward, and not too many should be the quantity philosophy behind policy development. When the number and complexity of the policies get to be too overwhelming, then it is time to reconsider and conduct a reengineering exercise on the policy development and maintenance system. Each organisation has its own limit. Some has 10 key policies; others that have higher order of risks may have over 100. A simple test is to see how much of those risks have been mitigated and how often there are changes in the organisation. A stable organisation like NGOs in the social welfare sector would probably not need as many changes when in effect there are few new services, not too many new joiners, and deal with minimal risks services.

***Key policies should be reviewed in their entirety at least once a year for relevance by the committees or by the CE.***

***Key policies should be audited for compliance at least once a year as well, by auditors or the Honorary Treasurer.***

The ideal review session should be the inaugural meeting of the sub-committee where new directors are being introduced. At the end of the fiscal year, the secretary of each sub-committee should collect all amendments made to any policy and make a proposal that all amendments be carried into the next year. When the



new subcommittee meets, they will decide to accept or reject some of those amendments.

Policies should be discarded whenever they are found to be irrelevant by the board or as recommended by the auditors. This points clearly to one of the most important roles of the auditor is to validate policy compliances and report any deviation to the Board. Sometimes this role is taken by the Honorary Treasurer. But regardless of whose role it is, someone must conduct this review. Otherwise, this will become a serious breach of system integrity and reliance on staff to report non-compliance is like asking the test takers to grade their own papers.

The Hong Kong Council of Social Services should have an updated list of relevant and important policies for their member agencies to download. As a reference, we have attached a simple checklists of possible set of policies for the agency to consider (please see attachment).

## ***Feedback and Communications***

**How should and how often should policies be communicated?**

When middle management cannot quickly recall the existence or essence of key policies, then it is time to rethink whether there are too many in place or that communication of such policies has been mishandled. When they contradict themselves with policy guidelines, then the board must decide whether it is the fault of the system or the lapse of memory of a particular individual. When policies are filed or put onto shelves where retrieval is nearly impossible, then it is time for a rethink.

Policies are communicated when they are first developed. A top-down approach to the development of board level policies is typical; and a bottom-up approach is often used for operational policies as this would ensure consistency and buy-in across the organisation. But more importantly, policies should be reviewed as stated above, and by having the review process management's understanding and acceptance should correspondingly improve.

**When and how often should policies be revised?**

With the rapid rate of change in any environment, policies do become obsolete and outdated. And if not amended, they may become an inflexible set of guidelines that would hamper the growth of the corporation. It is this fine balance that requires the Board of Directors to continually revise the relevance of its policies and amend them as needed – or leave them as they are as frequent changes do affect their enforcement and acceptance. Requests for amendments to the policies can be made formally by the secretary of the committee, by top management, by the head of the relevant departments, or by any of the directors as and when needed. Requests should be written, be discussed promptly at the next subcommittee meeting, and should be responded to within a reasonable timeframe, typically within a month.



All changes to a policy, all requests for amendments, and all decisions regarding such changes should be copied to the Audit Committee and the Internal Auditor.

## ***System Linkages***

Policies must be linked to the strategic planning process. More importantly, they must be linked to the strategic plan. In effect, policies are the rules set in place such that the strategies can be realized.

Please refer to the attached, to understand the linkages that may result from a list of policies that would be required for an NGO.

## ***Recommendation on Closing the Gaps***

An effective policy is one (a policy) that is being used (implemented) by the organisation. Underpinning the policy, once consensus is reached on it, is the reality that it should be communicated and explained to all personnel involved in the process. It is the intention that once the policies are in place, the relevant management systems would be governed over time by guidelines and not by the whim of any single individual – be they Prima Donna directors or CEs.

As such, the process in strengthening a policy system would include the following steps:

1. Undertake a review of all policies, identifying those which would need amendment, replacement, or development.
2. Strengthen the process of independent review by appointing an individual at the board level, honorary treasurer is best, to oversee the compliance aspect of all key policies.
3. Introduce policies into induction programs for new staff, ensuring that they understand the spirit and intent of key policies.
4. From time to time, management may want to ascertain a person's knowledge in certain policy and a testing scheme would need to be arranged.
5. Install a regular review program for policies, such that identified policies are reviewed on a set timetable by named and responsible parties.
6. Make an effort to discard 10% to 20% of old policies, to be replaced with simpler and clearer policies.



7. Compare your set of policies with other agencies and private firms, to understand the quality and extent of implementation of policies.
8. Help directors understand their obligation and roles in ensuring the integrity of this policy development system.
9. Put in tight timeframe for review and mark each policy with a revision date, revision responsibility, and
10. Make an effort to test the intent and spirit of the policies in place and see how relevant they are to the latest strategic plan.

## ***NGO Operational Policy Stock-take Checklist***

A policy is a set of guidelines which outlines the approach and principles the NGO would take in managing its various resources. A policy, usually created by the Board and/or senior management and implemented by management, provides guidelines that would encourage management to function within 'guided' boundaries.

The Board sometimes delegates the authority and responsibility to management to develop policies. The Board however is held responsible to ensure that policies exist, are adequate, and are being followed at all levels in the organisation. The Board is held ultimately accountable for the existence, integrity, and soundness of organisational policies.

Policies serve as reference points when procedures and programs are being developed. They help to define how things *are* being done and *should be* done in the organisation. A policy may contain some procedures; but just having procedures does not make such documents a policy. Each policy should be customised to fit the NGO and its changing business and servicing requirements. Hence, all key resources of the agency would have a corresponding set of policies which governs its usage and relevance. The key is to have the minimum required set of policies that is sufficient for ensuring clarity and accountability.

The following is a list of possible policies that the NGO may want to adopt.

Type of Policy	Definition	Already Captured in SQS?	In Place?	If not in place, priority for development & implementation (1 = High; 5 = Low)
1. A policy on the formulation and management of policies	This document outlines the general formal approach and framework for the development, discussion, drafting, and revision of management policies for your organisation. This is the guideline to which how policies should be developed, updated, discarded, and applied.			
2. Board-level meeting and attendance policy	This policy sets a guideline for the requirement of Board attendance and procedures of the Board and committee meetings.			
3. Director's office bearing and dismissal policy	This policy states the outlines for the selection, appointment, promotion, removal and election of directors.			
4. Financial management policy	This policy states these key areas: <ul style="list-style-type: none"><li>o Managing financial resource</li></ul>			
	<ul style="list-style-type: none"><li>o Monitoring financial performance of service unit, including:<ul style="list-style-type: none"><li>• Measures to avoid conflict of interest</li></ul></li></ul>			
	<ul style="list-style-type: none"><li>o Measures to handle resources obtained from other funding bodies, donation proceeds, gift-in-kind</li></ul>			



Policy Stock-Take Table

Type of Policy	Definition	Already Captured in SQS?	In Place?	If not in place, priority for development & implementation (1 = High; 5 = Low)
5. Finance - Expense approval policy	The Expense Approval Policy indicates the expense approval process and defines the approval authority and responsibility of different officers within the organisation, particularly under LSG.			
6. Finance - Purchasing policy	The Purchasing Policy controls all requisition of products/services from external suppliers made by the organisation. It refers to purchases of goods and services for daily operations as well as long-term capital acquisition.			
7. Finance - Capital expense policy	The Capital Expense Policy establishes rules and approval procedures on the requisition of goods or services on larger scales or over many years. It relates to requisition such as a demand for capital goods items (depreciable), buying a piece of land or other properties, or large scale capital involvement needed as a result of new services or products that would have long-term impact. For innovative products and services that the NGO may undertake, the risks are identified and a discussion of risks are presented through some standard forms.			

Type of Policy	Definition	Already Captured in SQS?	In Place?	If not in place, priority for development & implementation (1 = High; 5 = Low)
8. HR - Recruitment policy	The Recruitment policy sets out the recruitment process, from position description, advertisement placement to selection procedures. How referrals are entertained, probation periods, procedures for interviewing staff, etc. are included.			
9. HR - A policy to cover hiring, firing, induction, and dismissal	Typically this forms the bulk of the NGO's staff manual. This could be a staff manual for new staff and existing staff. There are guidelines for new staff, e.g. an introduction of the organisation and its culture, and policies such as the complete personnel policies related to hiring, firing and departure of staff. How should staff be out placed should be presented. Procedures and terms for building employment contract with staff should be included. Sometimes Staff Grievance Policy is Included here.			
10. HR - Staff supervision /performance appraisal policy	This sets policy and procedures for appraising staff at all levels, including the management level and the chief executive. When and by whom will be stated for regular staff supervision. Steps for action taking after the appraisal should be specified in details. How often should appraisal be done, by whom, and how are results evaluated are included. A succession planning policy is stipulated here as well if a separate entry is not provided.			



Type of Policy	Definition	Already Captured in SQS?	In Place?	If not in place, priority for development & implementation (1 = High; 5 = Low)
<b>11. HR - Staff training and development policy</b>	This document lays out the importance of staff training and development that could help with the knowledge building of the organisation. It shows the guidelines and the provision on providing financial assistance and leave allowance to staff in undertaking such training and development. This policy is typically linked to the Appraisal Policy.			
<b>12. HR - Promotion</b>	The promotion policy sets the guidelines for assessing and replacing vacancies by selecting suitable applicants available from within the NGO. The NGO has the right to recruit from outside if there is no suitable internal candidate.			
<b>13. HR - Disciplinary policy</b>	It describes the disciplinary action that might be taken upon employees who do not perform and behave as requested from the organisation's guidelines. Dismissal is only one option within this policy.			
<b>14. HR - Equal opportunity policy</b>	It states the position of the organisation in providing equal opportunities to all staff in related areas.			
<b>15. HR - Pay policy</b>	This is the policy related to the structure of the various pay scales, pay period, vacation, etc., for all workers, including contract staff.			

Type of Policy	Definition	Already Captured in SQS?	In Place?	If not in place, priority for development & implementation (1 = High; 5 = Low)
<b>16. HR - Involvement and participation policy</b>	It specifies the participative roles of employees and their commitment towards meeting the organisation's goal and the needs of the customers.			
<b>17. HR - Communication policy</b>	This policy aims to enhance effective communication within the organisation. It aims to help staff understand the status, policies and progress of communication throughout the organisation. It would specify channels for receiving feedback and views from staff.			
<b>18. HR - New technology policy</b>	This policy introduces the benefit and its need for the use of new technology within the organisation. It states its concern towards situation such as the changes of work and skill requirement, and security of employment. It specifies the need for training, retraining and policies for redeployment if necessary as a result of the adoption of new technology.			
<b>19. HR - Health and Safety policy</b>	It mentions the importance of promoting health and safety to staff as a part of the NGO's responsibilities. This policy ensures all the major safety procedures are considered. It is important that a safe working environment is provided to all staff and clientele.			



Type of Policy	Definition	Already Captured in SQS?	In Place?	If not in place, priority for development & implementation (1 = High; 5 = Low)
<b>20. HR - Staff Grievance Policy (Problem Resolution Policy)</b>	The Staff Grievance Policy establishes the proper procedures and ways in dealing with the complaints and problems from the employees within the organisation. How complaints against management are addressed and reported, and the need to form investigative committees would be included.			
<b>21. Conflict of Interest Policy</b>	This policy sets the regulation for all staff on the daily essentials needed to support their integrity and ways to be independent, free from any business or other relationship, which might conflict or appear to conflict with his/her duty. Typically, many NGO follows the ICAC standard no-conflict of interest policy.			
<b>22. Audit Policy</b>	This policy specifies the authority and responsibilities of the auditing parties, which includes external auditors, internal auditors, the finance and audit committee, and any other party who has an audit role to play.			
<b>23. Investment Policy</b>	The Investment Policy regulates the investment principles and the scope of investment and corresponding level of risks that the Board and the management should comply with when making and executing investment decisions.			

Type of Policy	Definition	Already Captured in SQS?	In Place?	If not in place, priority for development & implementation (1 = High; 5 = Low)
<b>24. Pricing Policy</b>	The Pricing Policy identifies how revenue-generating services should be priced, in consideration with the social benefits gained and the cost incurred.			
<b>25. Record Disposal Policy</b>	The Record Disposal Policy sets up guidelines on how relevant data records of the organisation should be kept, maintained and removed.			
<b>26. Fund Raising Policy</b>	The Fund Raising Policy establishes the fund raising activity guidelines, such as parties who would be held responsible for fund raising, instruction for planning and implementing fund raising, as well as the steps for dealing with new funds after the activities.			
<b>27. IT Policy</b>	The IT Policy regulates the usage of information technology systems within the organisation. It defines the parties who are responsible for managing the IT system and the computer network. It mentions all the necessary details which are required to be understood by all staff, such as their access rights, security issues, platform standards, and software registration requirements.			



Type of Policy	Definition	Already Captured in SQS?	In Place?	If not in place, priority for development & implementation (1 = High; 5 = Low)
28. Inventory Policy	The Inventory Policy specifies the practice for recording and projecting the stock level within the organisation. Other factors affecting the inventory level may be taken into consideration, such as storage costs, updating needs, and disposal of unneeded goods.			
29. Quality (Service) Policy	a) Policies relating to feedback from service users, staff, other interested parties on the service unit's performance			
	b) Policies and procedures on assessing and meeting service user's need, which incorporate: <ul style="list-style-type: none"> <li>o Designated responsibilities for assessment, planning and review</li> <li>o Parties to be involved</li> <li>o Regular review and updating</li> <li>o Methods of assessment</li> <li>o Maintenance of records</li> <li>o Communicating decisions to relevant people</li> </ul>			
	c) Policies relating to entering and leaving the service			

Type of Policy	Definition	Already Captured in SQS?	In Place?	If not in place, priority for development & implementation (1 = High; 5 = Low)
	d) Entry policy is non-discriminatory and clearly identified the target group and the criteria for determining priority for entry.			
	e) Policy on providing services users with timely information about operations which affect the services received by them.			
	f) Policy on how and when the service users will be informed of the choices that are available; and how and when their decisions about the services they receive are sought			
	g) Policy on ensuring the service users' rights in relation to private property are being respected, and the policy and procedures are accessible to service users, staff and other interested parties.			



Type of Policy	Definition	Already Captured in SQS?	In Place?	If not in place, priority for development & implementation (1 = High; 5 = Low)
	h) Policy on respecting the service users' rights for privacy and confidentiality <ul style="list-style-type: none"> <li>o Service users' needs for privacy and dignity are respected and upheld</li> <li>o Service users are informed of their rights in relation to privacy and dignity</li> <li>o Written guidelines on aided personal care activities to ensure that the needs for private and dignified care of service users are respected</li> </ul>			
	i) Policy on ensuring that all information collected about service users, both written and verbal, is treated as confidential			
	j) Policy on handling complaints from staff, service users or other interested parties			
	k) Policy on ensuring the service users' right to freedom from verbal, physical and sexual abuse are being respected			
30. Others				
31. MAS administration policy	This is basically the MAS Charter and outlines the purpose, responsibilities, etc. of the MAS.			
32. Strategy formulation and implementation policy	This policy sets the methods in which a strategy is developed, maintained, and discarded.			

Type of Policy	Definition	Already Captured in SQS?	In Place?	If not in place, priority for development & implementation (1 = High; 5 = Low)
33. HR - Succession planning policy	This policy looks at the working principles behind succession planning and succession plans.			
34. A policy for managing stakeholder's and public's expectations	This policy supports the ways and means in which expectations should be managed for the stakeholders.			
35. Accountability and transparency policy	This policy lays down the guide for maintaining a healthy accountability and transparent system.			
36. Monitoring and information reporting policy	This policy refers to how information should be monitored, reported, made into exceptions, etc.			
37. Managing innovation policy	This policy looks at the principles behind the agency's support for innovation and continual renewal.			
38. Managing knowledge policy	This policy looks at the acceptable level in which knowledge is developed, collected, stored, disseminated, supported, enhanced, kept, and destroyed.			
39. Service marketing and promotion policy	This policy refers to the type and level of marketing tactics, non-negotiable brands, and other promotional schemes for the agency.			
40. Risk management policy	This policy lays down the guide for risks management - assessing, mitigating, evaluating, and insuring for example.			



# **Good Practices in Financial Management for NGOs**

## ***Definitions***

Financial management concerns with all aspects of how the agency deals with effective management of its financial resources and assets in order to optimise utilisation of resources in the achievement of objectives over the long run in line with its sustainable strategy. Financial management also concerns about providing useful financial information for management and stakeholders through timely reporting of relevant financial information. With annual budgeting and corporate financial planning as the heart of the financial management, the scope of financial management includes treasury management, grant management, fund raising, financial reporting, management accounting, financial control and financial performance measurement.

## ***Working Terms***

**Budget:** An annual financial plan to achieve worthwhile objectives combined with tested business assumptions, written in financial terms. It is a working document that delineates commitment of management to business results in facilitating management control.

**Budgetary control:** It is the process of comparing actual costs, revenues and performances with the budget so that, if necessary, corrective action can be taken or revisions made.

**Current assets:** Assets belonging to an organisation that could reasonably be expected to be turned into cash or consumed within a year.

**Current liabilities:** Obligations that an organisation owes within the next year.

**Cash equivalents:** Dollars parked somewhere for a short time such as certificates of deposits.

**Fixed Assets:** Assets that are expected to be held for long-term use and are not easy to be turned into cash on short notice. Examples of

fixed assets include land and buildings, plant and machinery and office equipment etc.

**Disposable cash:** Calculated by removing non-cash items from net income and net of cash outflows that has already been committed.

## ***Purpose and Implication of the System***

While the purpose of the financial management system is to ensure that resources of an organisation are utilised optimally in order to meet its goals and objectives and that reliable financial information is available for management decision making, it is essentially a key component of a strategic management system designed to sustain the continuing growth and evolution of the organisation.

Financial management constitutes the critical function of managing and measuring the performance of an organisation in quantifiable terms. Without effective financial management, an organisation would be ill-prepared in dealing with unforeseen events and risks in strategy execution, no matter how well it has formulated its strategies and delivered its services. Therefore, a sound financial management function is highly critical to the success of an organisation.

## ***System Features***

Financial management is a series of processes which comprises of financial planning, budgeting, treasury management, grant management, fund raising, financial reporting and financial performance measurement. The system is optimised and coordinated when key variance financial information can be timely and promptly provided to the decision makers, be it the CE or the Board of directors.

### **Budgetary Management**

Budgeting deals with the creation of a set of business assumptions for a fiscal year, which states in quantitative and financial terms of the planned allocation and use of an organisation's resources. It translates policy into financial terms and is the basis upon which control can be exercised. Budgets are usually prepared annually, but may be updated during the year to reflect specific changes in assumptions within the fiscal year. Budgets are used to:



1. Show the financial implications of plans;
2. Define the resources required to achieve the plans; and,
3. Provide a means of measuring, monitoring and controlling results against the plans.

Each organisation should at least have a master budget and for larger organisation, budget would also be set at departmental level and/or service centre level. As a good practice, a detailed budget analysis should also be set for each project undertaken as a measuring instrument for actual results.

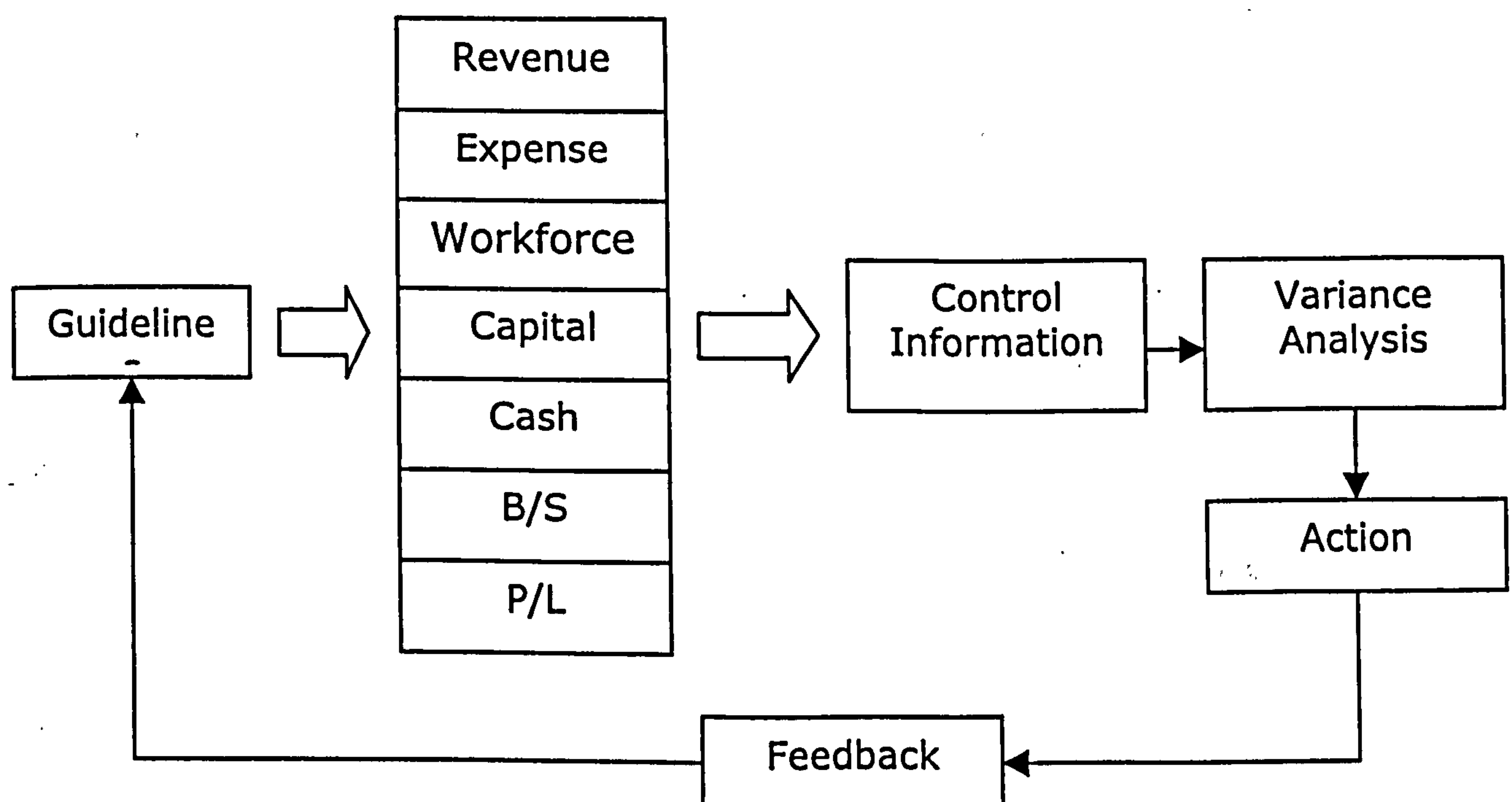
The procedures for financial budgeting consist of the following steps:

1. Budget guidelines are prepared and derived from the organisation's plans and forecasts with reference to the organisation's missions, strategies and objectives. These include sales and output targets and the activity levels for which budgets have to cater. It will set out the returns to be achieved and ratios to be met, such as current ratio and working capital etc.
2. Initial budgets are prepared by departmental managers with the assistance of accountants, if possible and necessary. Manpower requirements are also assessed. Changes to previous budgets, which are not in line with changes in activity levels or assumptions on inflation and cost or price increases have to be justified. These budgets should be reviewed and "bought in" by senior management to ensure that they meet the guidelines.
3. Functional and departmental budgets are collated and analysed to produce the master budget. This is reviewed by top management who may require changes at departmental level to bring it into line with organisational objectives for profitability and growth.
4. The master budget is finally approved by top management and issued to each departmental or budget centre manager for planning and control purposes.

5. Variances to plan are reported to management and to the Board of directors as exception reporting on a regular basis.

However, developing a budget is not the end of financial budgeting, and exercising a budgetary control is also important. Budgets should be amended accordingly should there be any material changes in the underlying assumptions.

Having set up a budget for a unit, say a department, service centre or a project, it is necessary to measure the revenue and costs that flow in and out of the measuring unit and the results achieved. The actual results should then be compared against the budgets, indicating the positive and negative variances occurred and the reasons behind. These comparisons should be documented and reported to management on a timely basis. The project manager or department/service centre head should decide on and report to management the appropriate actions to correct the deviations from the plan. Obviously, unless targets and indicators have been set for each project beforehand, it would be impossible to evaluate the cost effectiveness of such projects. Lastly, feedback on changes in the activity levels, performance levels, revised forecasts or underlying assumptions are made so that the budget guidelines can be amended and budgets updated. The process of budgetary control is illustrated in the following diagram:





## **Cash and Funding Management**

Funding has increasingly become a major concern to NGOs, especially when TOG expires in 2006. In addition to government's subvention, fund raising and treasury management are the two key aspects of funding.

### **Fund Raising Strategy**

With the full implementation of lump sum grant, NGOs have to be run more like a commercial entity. Self-funding and self-driven inevitably means the need to be more accountable. NGOs have to be more competitive, yet they are constrained by their current culture, low surplus and high cost base.

Other than the subvention from government, most of the NGOs have other methods of getting fund such as donations and revenue from events organised. However, competition for space, donation and share of voice will continue to increase for the sector. Bad publicity, ineffective governance, insufficient funding can quickly destroy the goodwill and franchise of the NGOs. Fund raising not only concerns about how much the agency can raise, but more importantly, for a longer term concern: how can the agency attract more sources of funding. Good practice in fund raising addresses the following questions:

1. What the organisation is about? What does it do? Its mission.
2. Why should people fund the organisation or the project endorsed by the organisation?
3. How would the donors know that the organisation can deliver on its promises?
4. How would the donors know the organisation has delivered on its promises?

As a first step in fund raising, management has to understand its own agency in relation to the changing environment and bring out the agency's unique selling proposition (USP). Secondly, the fund raising effort should be backed by a cause and the agency seeking corporate sponsorship should make it clear on what it wants to achieve. Majority of the companies want to give back something to the community and would like to know what the missions of the agencies are; and how by aligning with the agency, they can extend their social responsibility. They will not donate to any agency that has potential risks of jeopardizing their reputation, as in the case of a badly governed NGO. It is not unusual that most marketing campaigns fall apart in delivery as the agencies have not conveyed their messages clear enough. The agency should clarify the message that it wants to send and one of the most effective and inexpensive means of doing it is by word of mouth or through advocacy. Giving the sponsor

with the perception that the agency has delivered the message is important as this could mean a second, follow-up sponsorship. The agency can achieve this by leveraging transparency (please see the good practice on accountability and transparency). For project-based donations, the agency should be able to tell and certify to the sponsor that 100% of his/her contributions will be spent on its cause. This suggests that administrative expenses would have to be covered through another mean (e.g. government's subvention). The agency should be in a position to provide the project plans to the sponsor and tell him/her how the dollars will and have been spent. Securing a continual sponsorship is critical to the agency's operation. The following table suggests proper matching between the types of donations supporting respective uses of funds.

Type of Donations Vs Use of Fund

<div>Type of donations</div> <div>Use of fund</div>	Government	Corporate Sponsorship	Individual Sponsorship	Users/ customers donations	Public donations
Capital Project	*****	***	***		
Working Capital	*****	*	*	*	*
Special Schemes	*	*			***

\* Amount of funds from donors. The more the \*, the higher the proportion of total fund can come from that category.

**Treasury Management/Grant Management**

In considering whether to use long-term or short-term financing, an organisation should review the following factors/issues:

1. Cost of financing. Short-term financing usually incurs lower cost for the agency than long-term financing.
2. Length of the assets or projects that it wants to finance. The organisation should match the length of its financing with the length of the assets or projects to be financed.
3. Availability of security. In most cases, long-term financing would require assets as collateral to reduce the risk faced by lenders.
4. Expectation on interest rate. For example, the organisation needs long-term financing but expects that interest rate would continue to reduce, rather than raising a long-term debt/equity, raising short-term finance will be cheaper as the organisation can roll it over with lower interest rate.



Having raised fund to support the operation, the next concern for an organisation would be how to manage the cash. Similar to commercial entities, cash is king in the non-profit realm. Having adequate cash allows the organisation to pay its bills on time while taking advantage of opportunities that generate additional source of revenue. The job of managing cash flow consists of creating cash or liquid assets and incurring the right liabilities. To begin with, an organisation should do a cash flow projection based on annual budgetary figures, which is the heart of cash flow management and management should use it regularly.

The cash flow projection displays the cash expected to come in and go out, the difference between the two numbers and an explanation of how any negative difference will be financed. This provides the management an insight on whether their cash on hand is enough for the operation or not so one can plan ahead when and how should the assets be turned into cash, especially such assets as lands and buildings that are not readily convertible into cash. Management should also put effort in shortening the receivable days as much as possible. Remember, payables can be another source of finance. By lengthening the payable period, the organisation can have more free cash. The trick is that the organisation should stretch its payables right up to the point where it begins to cost either money or supplier goodwill.

Regular cash flow projection is the responsibility of the financial controller/chief accountant. While many agencies have cash flow projections, they are found to be in the heads of the management. A formalised, written projection serves as a channel of communicating to staff the importance of cash management as well as allows staff to see and act on it accordingly.

In managing cash flow, the treasurer should regularly assess the current cash position of the organisation to ensure it has enough cash for operation. A comparison of current cash position with the cash flow projection even gives a more meaningful picture of the organisation as it shows that what unexpected events lead to a deviation and provides insights to management how these events impact on the organisation.

Never have the misconception that the more cash held by the organisation the better off they are. While keeping an adequate level of cash reserve enables a level of safety margin for working capital, it is important that the organisation has enough cash as opposed to excess cash on hand to run. Maintaining more cash on hand than is truly needed is costly to the organisation. In the world of



Finance, there is a rule<sup>1</sup> which states that *the level of disposable cash should not exceed that absolutely necessary to run the organisation*. In a non-profit organisation, it may be demanded to justify for such large reserve if there is no particular project that requires such an idle cash pool. By investing the cash in risk-free assets such as US treasury bills or government bonds will raise interest revenue for the agency.

## Financial & Management Control

The centre of financial control lies on the internal control. Internal control is a system of policies and procedures put in place to provide reasonable assurance to management that the organisation will be operated effectively and efficiently while avoiding serious problems such as violation of laws and misappropriation of funds.

Elements of internal control embraces control environment, risk assessment, segregation of duties, communication and monitoring. Control environment concerns about the commitments and awareness of the management and Board towards the control system. It sets the tone of an organisation and influences the effectiveness of internal controls within the agency. Internal controls are likely to function well if management believes that controls are important and communicates that view to employees at all levels. Board and management should therefore give clear signals and communication to all staff about the importance and necessity of control as well as a clear communication of the internal control policies.

Risk assessment is the process used to identify, analyse and manage the potential risk that might bring an enormous adverse impact on an organisation without early notification. Internal control policies and procedures should be created to address these risks.

Segregation of duties is a system of checks and balances that makes the domination of a portion of the organisation's operation by a single person harder and to increase the likelihood of detection should it occur. It creates a network of safeguards at the various pressure points that makes it much more difficult to coordinate and expand fraudulent activity or to accidentally lose assets. However, there is no guarantee that fraudulent activity can be totally eliminated or avoided and therefore, the blockade of internal control has to be vigorously maintained and routinely updated to take into account new developments in the organisation's financial life. Preventing loss is always a lot easier and less expensive than coping with it.

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<sup>1</sup> Malburg, Christopher R., "*Controller's and Treasurer's Desk Reference*", McGraw-Hill, Inc., 1994



For small-sized organisations, it may not be cost-effective to segregate duties and to the extreme, it may even be impossible to do so when one person does all the duties. In those circumstances, it is necessary for the CE to take on complementary control duties. Thus, even with two people, a reasonable degree of segregation can still be achieved.

When developing the policies and procedures for internal controls, the authority and responsibilities of each employee should be specified which address the accountability and serve as a reference point for staff seeking guidance on handling unusual situations. Once developed, these policies and procedures should be communicated within the organisation and externally to outsiders, if necessary. It is also important to highlight the rationale and the organisation's expectations to staff.

When internal control policies and procedures are put in place and control activities have been communicated to staff, management should start monitoring the effectiveness of internal control system and assessing the quality of the system. Management has the responsibility to ensure that the system has been implemented and policies and procedures are followed accordingly. Management should also frequently review the system to ensure it reflects the current situation of the organisation and the controls are relevant.

## Performance Management

Measuring and monitoring the financial performance is a key step in financial management. It answers the questions that how well the organisation does within the sector and whether the organisation is financially healthy. A typical set of financial statements includes balance sheet, profit and loss accounts and statement of cash flow. To assess the financial health of an organisation, the most frequently used technique is ratio analysis.

Liquidity ratio	
<p>Current ratio:</p> $\frac{\text{current assets}}{\text{current liabilities}}$	<p>The current ratio is the most widely recognised measure of liquidity. It concerns with whether the organisation has the ability to pay its short-term bill and from its resources that can be converted into cash.</p> <p>The conventional wisdom is that this ratio should be at least 2:1, subject to a sensible interpretation according to the nature of the agency's need for</p>



	cash. Generally speaking, the higher the ratio the better, but it could mean that unneeded assets are being allowed to build up in short-term forms instead of being invested for longer term results.
<p>Cash ratio:</p> $\frac{\text{cash} + \text{marketable securities}}{\text{current liabilities}}$	<p>One drawback of the current ratio is that it includes inventory, which does not typically get turned into cash easily, in the current assets. Besides, receivables such as rental deposit may not be able to turn into cash quickly. Therefore, cash ratio is used, which takes into account cash and marketable securities only instead of all current assets. This is a more conservative measure of liquidity.</p>
<p>Days' Cash:</p> $\frac{\text{cash \& equivalent} \times 365}{\text{operating expenses} - \text{depreciation}}$	<p>This ratio provides an answer to the question that 'how long can an organisation continue if the cash gets completely shut off'. It represents the number of days of average size cash disbursements the organisation can withstand without any cash income.</p> <p>Rather than being used as a measure, its usefulness lies in the fact that it can be a good benchmark and is most helpful in the context of comparative analysis. This figure helps focus management on how close to the bone their cash flow is running and drawing insights and inferences through comparison with similar organisations.</p>
<b>Surplus ratio</b>	
<p>Net Surplus Margin:</p> $\frac{\text{net surplus}}{\text{revenue}}$	<p>It is the fundamental profitability indicator and is based on net income from continuing operations. It measures how well the management operates the organisation and how good the management is in turning their efforts into surplus. Generally speaking, the higher the better.</p>
<p>Return on Net Assets:</p> $\frac{\text{net surplus}}{\text{average net assets}}$	<p>It is another way of examining net overall surplus. It suggests how efficiently the fund balance has created that year's surplus and therefore measures how successful the agency's management has been in creating a surplus. While this ratio can give some insights to management, it is not used as frequently as in the commercial world.</p>



Ratios can give enormously powerful insight into an organisation's financial well being. While a single ratio does not give reliable and meaningful insights, an integrated package do give management a picture of the financial health of the organisation that can be quite revealing. All these ratios are at their best when compared with a benchmark such as target value, prior years' value or an industry standard/average. It is also worth to note that when comparing with industry standard/average, management should look at its composition as it may include organisations with different lines of services.

It is the responsibility of the management to monitor, analyse and evaluate the overall performance of the organisation. While the key financial ratios are one area that the management will look at, balance sheet, profit and loss accounts and monthly management reports will also be reviewed and evaluated against the budget, prior years' results and industry benchmark. Reasons for material variance should be investigated. Action plan should also be developed on what actions the organisation can take to eliminate/mitigate the deviation and how the organisation can improve its performance in the future.

Additional indicators should be used to measure quality of critical services in comparison with available benchmarks. Such indicators should go beyond the standard financial ratio analysis and include specific measurements, which are of strategic values to the agency. In particular, financial ratios are useful calculations to demonstrate the financial conditions of an economic entity; however, they do not provide very descriptive information that is specific and relevant to an agency's mission and strategic focus. These indicators should show the actual results from its operations and how an agency is performing in terms of output with quantitative and qualitative measures. Some good examples of the indicators are illustrated as follows:-

- a. We counselled 1,200 students with domestic problems this year, in comparison with 1,000 reported in the year before.
- b. 90% of the patients after our counsels were able to perform better at work.
- c. We helped 1,500 youngsters "get off" the street and find a permanent position after graduating from our training, representing 90% of the participants.

These report indicators would serve the purpose of providing an objective review of performance and output from an agency in view of its overall mission and strategy. Management are now able to understand whether they have been performing well with the right focus in delivering results. Such indicators are also considered as very useful information for reporting to both existing and potential donors who now demand thorough understanding whether the resources are producing value-for-money output.

## Corporate Financial Planning/Capital Budgeting

Financial planning is the process of anticipating the future resource requirements and long-term performance of an organisation. The financial plan derives its assumptions from all departments/service units in the organisation and its purpose is to quantify objectives, tactics and policies over the planning horizon and put them into a projected financial statement. Financial plans are used to:

- Identify financial results at the end;
- Provide financial milestones along the way; and
- Determine financial resources required.

A financial plan usually comprises of projected balance sheet, projected profit and loss accounts, projected statement of cash flow and assumptions used. Financial planning starts from preparing a budget showing the estimated revenue and expenses. Details on developing a budget have been mentioned above. One important point to bear in mind is that budgets usually rely on assumptions made by the preparer and scenario analysis should be done to assess the impact of changes in the underlying assumptions on the organisation. Following is a list of examples of areas of assumptions, which should be considered when preparing a budget:

Category	Assumptions
Revenue	Subvention from government Unsubvented service income, donations Other grants Interest income Membership fee Income from events organised
Expenses	Salary Recruitment expenses Rent & rates Programme expenses Utilities expense Transportation expenses Insurance expenses
Capital expenditures	List by project: amount, when and source of funding

The organisation should assess its financial resources and raise fund accordingly. Detail of funding has also been mentioned above.

When performing major capital investments, such as office facilities and service centres, NGOs like commercial entities need to consider carefully the economic



returns from these capital expenditures. The concept of capital budgeting and time value of money is the fundamental consideration in the evaluation process.

## Accountability

Financial management involves different levels of staff in an organisation. It is the main responsibility of the honorary treasurer/financial controller, with the final approval authority lies on the Board of directors. While the honorary treasurer/financial controller can delegate more day-to-day responsibilities to the chief accountant, including treasury management and performance measurement, the Board can also delegate some of its approval authority to the financial committee, honorary treasurer or financial controller.

Regardless of how the responsibilities have been delegated to various levels of staff, it is extremely important that the treasurer/financial controller clarify responsibilities and accountability for the system and have it accepted by respective staff. Separation of duties is paramount.

The internal auditor also plays an important role in monitoring and reviewing internal control systems in order to better safeguard the assets and controls. Depending on the level of resources available, some agencies would employ an internal auditor to focus on reviewing internal control procedures and to ensure that they are effective while some would outsource this function to external consultants. The audit committee to whom the internal auditor would report has a vital role in ensuring the financial system is functioning well.

### Financial Management vs. Accountability

	Annual Budgeting	Cash Mgmt	Financial Mgmt & Control	Perf. Mgmt	Corporate Planning	Capital Budgeting
Board	√		√	√		√
C.E.	√		√	√	√	√
Senior Management	√	√	√	√	√	√
Operations Executives <sup>1</sup>	√	√	√	√		
Frontline Workers		√	√			

## ***System Integrity and Review***

How does the agency know that the system is functioning properly? This is important because financial controls play an important role in ensuring the system integrity of the organisation as well. It is a good practice to provide training to staff on basic concepts in financial management. Recruit and hire employees with a proven honesty. Most importantly, there must be a culture in place for integrity and honesty such that a sound financial management can also be maintained with minimum controls. The internal auditor, the financial controller, the honorary treasurer, and the audit committee all have a specific and overlapping role to play in ensuring the system is working. The roles are overlapped purposely. A dual level of compensating control mechanisms is often used, for example, the case in which the financial controller checks the work of the department through financial submissions, which is in turn checked by the finance committee (if any) or the CE.

To every organisation, the financial system is most susceptible to breakdown due to human errors and potential fraud. Annual financial audit provides certain assurance that proper control is in place and that the overall financial information reported is in compliance with accepted accounting standards.

An effective agency is one that has timely and accurate financial reporting. The financial and managements reports are set using SMART targets and variances are promptly shown and justified. At the optimal working level, the agency regularly conducts value-for-money review and continually seeks ways to streamline processes and reduce overheads.

Problems of the following would also suggest the financial management system is not functioning properly:

- ❖ Frequent under-budgeting for projects;
- ❖ Flag day money not promptly banked in;
- ❖ Fund managers appointed to oversee staff pension reports losses beyond the initial investment;
- ❖ The part-time Chairman spends several hours signing cheques each week which indicates the approval limit for others to sign has been set too low;
- ❖ Directors have not been successful in soliciting funds from others; and
- ❖ Financial information is received by the Board just minutes before the meeting.



- ❖ Financial management is a complicated art and users are advised to seek the counsel of a professional accountant and or experienced finance manager.

## ***Feedback and Communications***

The review of the financial management process should be carried out periodically:

- ❖ Financial plan and budget should form part of the strategic plan and be agreed at the first fiscal meeting of the Board of Directors.
- ❖ Monthly meeting should be held with the Board or the Finance Committee to report the current financial position of the organisation, any changes in the budget and forecast, progress in achieving the targets and to provide feedback.
- ❖ New projects are presented to the Board with a project evaluation sheet showing the financial impact of the projects on the organisation.
- ❖ Frequency of report is high, and generally the financial information is reported a week before a meeting commences.
- ❖ Key reports are reported and include past statistics to show deviations or improvement over the previous periods; often graphs are used.
- ❖ The financial representative of the Board and the CE meet regularly and the financial status of the agency is made known to the Board on at least a weekly basis.

## ***System Linkages***

Annual budgetary exercise, documentation of financial and management control procedures and the related treasury management guidelines serve as the overall blueprint for the financial management in the integrated operations of the agency. Once the financial management system and framework is agreed, it is subsequently integrated with the overall strategic plan. Especially for the annual budget exercise, it is important to review the overall mission and strategy to ensure that proper consideration is made for the execution of plan

being supported by assumptions in the budget.

Department goals are then set through this top-down approach and the plans for Human Resources, Information Services, Operations, and Procurement, are linked into this financial management system. Further, the agency's FSA and SPMS should have a direct linkage between the specific financial management guidelines and the targets and processes as defined in the strategic and annual plans.

## ***Recommended Steps for Closing the Gaps***

Although the key components of financial management system advocated here may not be in place in your agency, it is however instrumental that you have commenced an annual budgeting exercise in order to facilitate proper financial management and control as well as other key activities as suggested. Budgeting would also facilitate communication among management of different functional departments enabling further essential development of a fully functional financial management system. Once a basic budgetary system is in place, your organisation will be able to grow the culture of accountability and learn about the critical financial management functions in an integrated manner. Following are some simple steps that should begin to help raise everyone's awareness about the financial system and its health:

1. Begin your formal annual budget preparation exercise using a top-down approach to promote the exercise where management staff are encouraged to participate interactively;
2. Begin to compile variance reporting for the CE and the Board, so that the meetings can be much more focused and made to link in with the strategic plan of the agency;
3. Tighten the explanation or action where significant variances have occurred and raise the expectations of the Board for department heads to manage the deviations;
4. Consider including the management of budget in the performance appraisal for all posts;
5. Begin to compile a set of financial ratios and track them over time. Users may want to share data with other agencies or with the HKCSS acting as the central repository for such ratios;
6. Introduce the Project Evaluation Worksheet (see risks management good practices) as a means to manage the introduction of new projects;



7. Review how overheads are allocated and eliminate arbitrary allocation of overheads over departments which cannot control them;
8. Seek the support of a professional financial analyst or accountant by asking the individual to join the audit committee, the Board, or simply as an advisor;
9. Review accountability and segregation of duties within your financial management system; and
10. Consider other means of raising donation other than through a flag day and develop a plan for gaining corporate sponsorship for at least one event.

## ***Annex***

### ***Cash versus Accrual Accounting***

Financial statements should be prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur and are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations and of resources that represent cash to be paid or received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions.

As opposed to accrual basis, financial statements that are prepared on cash basis would recognise the effects of transactions and other events when cash or its equivalents is received or paid. In such case, income and expense incurred as a result of the occurrence of transactions or events that may however belong to two different accounting periods will be brought together. The financial statements would thus not show fairly the effort of the management during a particular accounting period as the statements include transactions in other accounting periods.

# **Good Practices in Accountability and Transparency**

## ***Definitions***

Particularly under LSG, the accountability and transparency system strengthens management quality and decision making by clearly laying down the authority, structure, reward and punishment, and problem resolution responsibilities for all individuals in the agency. Transparency is a contributing part of the system because this affects the amount, frequency, timeliness, and quality of disclosure of information for users and sponsors of the agency.

For NGOs, being accountable to the stakeholders, and more importantly donors, is vital and necessary. As NGOs need to raise its profile in order to raise more funding, they have to be seen to be accountable and transparent. NGOs are spending government and the public's money, using land that is probably provided to them at a subsidised fee, and they are exempt from paying taxes. For the directors who sit on these boards on behalf of the funders and donors, this means they have to ensure that their NGO is accountable on behalf of the donors, private and government funds.

## ***Working Terms***

**Long Term:** For the NGO sector, anything longer than 24 months should be considered long term. Less than that is considered short term. Stability or the pace of change in the sector determines the actual length. In the commercial world, anything longer than one year is considered long term.

## ***Purpose and Implication of the System***

The inclusion of the accountability and transparency system is to remind the Board and management of the importance and relevance of accountability and transparency particularly under a context of self-governance. The concepts of



responsibility, accountability and authority are amongst the management principles most often misunderstood. And yet they are key to ensuring the organisation operates smoothly and efficiently in delivering services to its clients. The extent to which information on the operations of the organisation is made available to stakeholders will have a major impact on the way in which those operations are carried out. It is also likely to impact upon the morale of the staff and their commitment to the organisation.

Let's deal with each in turn and let's begin with accountability. Traditionally, accountability has been reserved for assigning blame after a mistake or error has been made. It is more a process in which those who are given authority are also provided with the means and system in which such power can be removed. The principle was based on a find-and-punish mentality.

Today, the principle has leaned more towards identifying the root causes of a problem such that it can be eliminated at the root and which the person accountable is being put on more pressure to fixing the problem himself, than strictly on assigning blame. That is, he is accountable for fixing the problem as a result of his initial oversight, more than being blamed and made the sacrificial goat for the problem.

In a truly self-governing organisation, everybody in a position of authority is made to be accountable. Properly set up accountability system can balance power and the abuse of such power. No individual in an organisation can have absolute power because history has shown, absolute power corrupts absolutely. The establishment of an NGO is to fulfil the vision endorsed by the donors, recipients, or members. The NGO was not established for the sole well being of the directors or employees. Accountability provides an opportunity for the organisation to learn as a whole so employees and volunteers may learn and serve together. It clarifies roles and responsibilities and the organisation benefits as it can be certain that critical roles are taken up by someone whom they have placed the highest trust upon. There are always critical roles in the organisation and someone must be assigned as one of the goalkeepers.

Transparency, on the other hand, works hand in hand with accountability as it encourages openness and allows the monitoring parties a channel for confirmation. Donors increasingly are demanding higher transparency on how their donations were distributed and employed. The Board and the CE want greater transparency on operational matters so that they could perform their role as monitor of management. They also want more transparency in the market itself so the agency can better gauge the environment. Division heads want more transparency across the agency so that they can contribute at the right time and with the right resources. Everyone wants more transparency but



this must be balanced with overloading the users with too much information and giving away the agencies' working secrets.

The amount of disclosure needs to be balanced. Those with position of authority are given the authority because they have the competence and expertise to carry out the decision. To do this work, they need information. Second-guessing their intention and constantly monitoring their work does not enhance control, but abuses the role of the monitor. On the other hand, too much 'partial' information can be misleading. A less educated and sophisticated industry can be easily misled by those with other agenda and this is the reason why boards are set in place, to help monitor the NGO on behalf of less able bodies. And because NGOs have fiduciary duties to the donors, to the public, and to the clients they serve, the issue of transparency becomes even more important, simply because these stakeholders would obviously want to know that their money and resources are being spent properly.

Several key items for this accountability and transparency system to keep in mind are:

- ❖ *Responsibility is not the same as accountability, which implies the highest level of responsibility. Everybody in an organisation can be held responsible for quality, but only a certain individual is made accountable for delivering the quality report for example.*
- ❖ *Accountability suggests a stronger ownership of the problem. The consequences of failure to the incumbent are clear to the incumbent and to the stakeholders. There is a predefined course of action for failure in performance.*
- ❖ *Transparency reinforces the accountability system. The operational side of transparency is called disclosure. And the amount of disclosure needs to be balanced with their need to know in order for them to carry out their respective duties.*
- ❖ *The primary benefit of this system is that clear accountability reduces confusion and raises performance while transparency helps the NGO to be conscious of its mandate and allows the individual with authority to carry out his/her work.*

## ***System Features***

In practical terms, accountability is difficult to make real. Transparency is easier as we can focus on the amount and quality of disclosure. Independence



of the directorship, which some people attribute to accountability, is not so much of a problem for most NGOs because virtually all directors are in fact independent. Being interested, participative, and competent directors who understand the risks, constraints, and opportunities of the NGO is more important than being independent in most cases.

We will refer to accountability first then to the features of transparency.

### ***How does this accountability system work?***

The donors or sponsoring body would select a Board of Directors to represent them and gives the Board the power to govern. The Board in turn employs the Chief Executive and his senior team, and they in turn, deliver the services as agreed in the strategic plan. The Board, the CE, managerial staff, and front-line social workers are all accountable to the organisation and to the community in some degree. That authority can be managerial authority or a task authority as being made accountable to deliver excellent quality to a sick patient. Failure and the consequence of failure should be clear and leaves no doubt to the minds of the service provider or the service recipient.

Fundamental to the whole issue of allocating responsibility, accountability and authority is the fact that whilst authority can be delegated, accountability cannot be delegated. That is, a task can be delegated but the individual who delegated that task remains ultimately responsible and accountable for its performance. This means that accountability runs up through the line management chain to the Chief Executive and ultimately to the Board.

For accountability to work, the infrastructure and a set of processes need to be in place. The features of the systems are:

- o A clear and updated job description reflecting the job holder's authority (all unique positions should have a job description which forms the contract between the organisation and the job holder);
- o A process that would involve independent parties on an ongoing but non-intrusive way as advisors so they may help the job holder moderate extreme positions (for example, the establishment of sub-committees of the Board);
- o A process and a means in which those failing the tasks are provided with a reasonable time in which remedial actions can be put in place (removing the incumbent should not be the only option);

- The removal of the job-holder by those who had given the person such authority or by an independent party as determined and this should be explained by the overseeing authority beforehand;
- Everyone's performance in the organisation is answerable to a party and those with performance below an acceptable level are dealt with fairly and in accordance with open rules and guidelines;
- A clear and simple organisational structure in which those with authority understand their accountability and responsibility; and
- The presence of an audit committee, established separately from the financial committee. An independent audit committee provides an extra layer of oversight.

Good practice would suggest that all job descriptions should be reviewed for relevance and updated once a year. Documenting the changes is important but what is more important is having the job holder and the supervisor discuss the parameters of their work and responsibility under a new environment.

The more powerful the position, the more it has to be checked. Accountability means the incumbent does not abuse his/her authority (for schools, asking the school to accept the director's children or a friend's children without going through a proper vetting process) or not declaring any potential conflicts of interest. The Board is clearly responsible for the proper spending of funds. They do this by discussing alternatives with the CE and other department heads.

Next, the system features of transparency. There are actually three levels of transparency: transparency of the market, which is provided by SWD and other agencies; transparency of the inner working of the management team; and transparency of the impact of decisions. For most Boards, the issue of transparency deals with the latter two.

### ***So how much transparency is enough?***

The realm and degree of transparency in an organisation is based on the type of risks it faces and the levels of control that are needed. There are no strict rules on how much transparency is enough. The proper question should be what value would higher transparency bring? More donations? Reduced level of unnecessary control? Or more unwanted and unwarranted second-guessing by the Board or by the media and the public? Can the information be more transparent to the donors only? Transparency inevitably leads to a discussion



on the right amount of disclosure on a timely basis. Operationally, transparency means having a clear and documented disclosure guideline or policy which deals with:

- ◆ What is considered confidential information and how long should the classification remain?
- ◆ Who should have rights and access to the information?
- ◆ When meetings are held, how should participants be briefed beforehand?
- ◆ For Board meetings, are members provided with the necessary information at least one week before the meeting?
- ◆ Is there a Board meeting at least once a quarter?
- ◆ Are key financial information and ratios published in the annual report? The homepage?
- ◆ Do donors have good access to the Board members?
- ◆ How should senior management's compensation be disclosed in the annual report?
- ◆ Has the agency ever failed to disclose information needed by the donors on a timely basis?
- ◆ Does the agency announce financial information at least once a year?
- ◆ Does the agency publish the annual accounts and report within three months of the end of the fiscal year?
- ◆ Is the agenda of the General Meeting where the Board faces its stakeholders in a public forum made available on the homepage on a timely manner?
- ◆ To what extent information should be given to the incumbent for that person to carry out his/her duties?

Certain information, such as that related to individual service recipients may need to be kept confidential. However, the organisation should operate under the principle that information is kept confidential only when absolutely necessary. Often, the opposite is the case. Information is only disclosed when it has to be disclosed. This leads to mistrust amongst the stakeholders and the generation of rumours and misinformation. The organisation should have as a minimum:

- ◆ A printed formal policy covering the management and disclosure of information (as cited above).
- ◆ Procedures and processes that support the disclosure policy and which are known and accessible to the staff.

The organisation needs to have in place actions and activities that reinforce a culture of disclosure. These should include:

- ◆ Working minutes of management meetings being open to the Board.
- ◆ Financial information such as revenue and expenses are available for scrutiny in the annual report.
- ◆ The annual report is made available to all key stakeholders.
- ◆ A summary of the annual report is distributed to staff.
- ◆ Salaries of all key executives are printed in the annual report.
- ◆ Staff salary scales are printed in the annual report.
- ◆ Job descriptions of all posts can be referenced by anyone.
- ◆ The audited accounts of the organisation are distributed to its sponsors.

## ***Accountability***

Assigning accountability and ensuring actions are taken belongs to the Board of Directors. But in reality as the Board operates on a part-time basis, this is delegated in varying degree to the Audit Committee, Finance Committee, the Auditor, the Chief Executive, and the heads of each department. The assessor must be clear that delegating is not the same as giving up the accountability. One can delegate responsibility, but one cannot delegate accountability. While the Board is ultimately responsible for the existence and soundness of the accountability and transparency system, they are called upon to determine how to deal with those who have not delivered on their accountabilities. The Board must determine whether to allow the individual to fix the problem, to remove the individual, or to instigate an independent party to identify and to remedy the problem situation. An accountable Board would see to it that this is done quickly and satisfactorily; otherwise, it would be pressured to become more self-accountable itself.

Because the delegation authority is so diverse, it is extremely important the Board clarifies responsibilities and accountability for this system. Various levels of staff and management in an organisation should have specific responsibilities with respect to their level of accountability and transparency. A coordinated discussion among the Board members, the Chief Executive (CE), and the management team brings about the best means of proactively managing this system while still achieving its objectives. As a reference, following are leading practices of the accountability for each level.



**The Board:** The Board is held accountable for the sustainability and viability of the NGO, and this often implies a long-term timeframe. One way in which some Boards have done this is requiring mandatory attendance. Leading NGOs now have attendance guidelines and often directors with less than 50% attendance are removed. Unless directors participate and attend meetings, they cannot be doing their job. Accountability in this case means facing the consequence for not doing their job, which is their removal based on an open guideline that all directors must follow.

At the higher level, the performance of the NGO would be their report card. They would report the performance of the organisation to the community through their annual reports which contain financial accounts and objectives achieved for the organisation. Board members can be removed for not delivering. Members of the Board would subject themselves to removal and nomination by voting members. The government as the major donor should be held accountable for the appointment of qualified and competent directors if such a system is not in place.

- ◆ Being accountable for the Board can be interpreted to mean, in the practical sense for the agencies, these measures:
- ◆ Ensuring a reasonable duty of care and diligence; and that the directors accept responsibilities towards the public.
- ◆ Accepting the fact that directors can be held liable for fraud and negligence.
- ◆ Ensuring compliance to statutory regulations.
- ◆ Inviting only competent directors, including outside professionals, to act as directors or sit in on committee meetings as advisors.
- ◆ Having independent auditors prepare audits and the Board reviewing such findings.
- ◆ Ensuring any conflict of interest is being managed and requiring all directors to sign a declaration of interest statement every year.

**The Chief Executive and Other Management Staff:** The level of accountability can be assigned based on the level of performance that the position must oversee. Consequently, the Chief Executive is held accountable for the delivery of the performance as agreed with the Board within his/her contractual terms. Failure for delivery would mean the contract would not be extended. Often the plans and targets would become a part of the overall performance target for



the CE. This logic continues downward onto the head of each service centre. Consequently, each direct report is held accountable for the delivery of his/her performance and management for his/her department. The CE should be given the authority and the responsibility to remove those who cannot perform and fix organisation problems as they appear.

The HR professionals would assist the CE in ensuring that the job descriptions are updated and that accountability is consistent and fair with the role of the job.

Within the organisation, copies of job descriptions at all levels should be available for scrutiny by staff, and preferably open to donors. At the minimum, the job descriptions of the Chief Executive and the senior management team should be available to all staff. This provides a clear example to staff members that the senior managers are committed to transparency as well as being responsible for its day-to-day implementation.

Essentially, the organisation would need to incorporate an accountability and decision making matrix in considering the assignments of accountability for each level into different types - as a consequence of a failure due to good decision-making in strategy, financial returns, operational, technical or quality matters. A sample of the matrix of accountability is as follows:

**Decision Making/Accountability Table**

**Levels of Accountability**

	Strategic	Financial	Operational	Technical (Quality)
Board	Vision/Mission	Long Term		Service Level Agreement
Committees	Mission/Policies	Long Term	Oversight	Service Compliance
Chief Executive	Mission/Strategy	Short Term	Management	Service Management
Senior Management (by functions) <sup>1</sup>	Execution and Reporting	Partially	Execution	Service Monitoring and Reporting



Operations Executives <sup>1</sup>	Execution	Partially	Execution	Service Delivery and Supervision
Frontline Workers	Execution	Cost reduction	Hands-on Delivery	Service Delivery

Ensuring the system is working is the responsibility of the Board, the Chief Executive, and the various sub-committees. Ultimately, the Board is held responsible for clear accountability and transparency. The Board has overall responsibility for the implementation of the disclosure policy through the Chief Executive and the senior management team and down through the management hierarchy.

If the organisation has installed such a working system, then the party responsible for checking and maintaining the viability of this system belongs to the Chief Executive (for management matters), and the Secretary of the Board (for matters dealing with the Board). They are held accountable. The responsibilities however are sometimes passed to the internal auditor and other individuals as stated below.

Operationally, the Board and the CE would rely upon the Internal Auditor to signal any deviation from the disclosure and transparency policy and sometimes from the HR professionals with deviation from job authority. The Internal Auditor plays an important role in determining whether this system is working as laid down in the agency's policies. Besides mandated to review financial accounts, internal auditors are sometimes given this wider responsibility. Other NGOs would form an independent audit committee and mandate it with this responsibility. There are no hard and fast rules. Either system - using one auditor or setting up an audit committee -- would work.

Having an audit committee and conducting an audit is no guarantee that accountability has been exercised. But not having such a committee clearly indicates that accountability and internal transparency is lacking: The case of United Way and Enron are good cases in point. The scope of audit typically falls on financial audit, and not managerial audit or audit against policies.

## ***System Integrity and Review***

How do the Board and management know that the current transparency and accountability system is working?

It is important that the system be checked and maintained. Obviously, if the Board is unclear of the intent and results of the management team, or that the CE is unclear about his/her subordinates, then the system should be reviewed. If a group of individuals are unclear of their roles in a project or in the framework of governance and management, then the system is suspected. Good practices stipulate a clear role for everyone in the planning process; and that the expectations and results are transparent as well.

The amount, frequency, timeliness, and quality of disclosure have a direct impact on transparency. Good practice would suggest the following indicators are present when the system is functioning:

- ❖ The Board, board members, CE, the management team, are clear about their own and respective roles.
- ❖ There is an audit committee and it is comprised mostly of independent directors (not sitting on other committees).
- ❖ The audit committee oversees the financial and management audit.
- ❖ The audit committee conducts a proper review of the work done by external auditors.
- ❖ The directors understand and accept the no-conflict-of-interest policy. Minutes of Board meeting would indicate the volunteering of interests by a director.
- ❖ Attendance rate at Board meetings is higher than 50%.
- ❖ Directors who are absent for three consecutive times must write to the Board to explain their absence. The Board would decide to accept the apology or demand the director to step down.
- ❖ Board members are removed due to low attendance.
- ❖ New Board members are provided with induction training. New staff are provided with induction training as well.
- ❖ New staff and Board members sign off on their roles and responsibilities when they joined the agency.
- ❖ All types of donors are treated equally. All get the same type of information?
- ❖ The directors have a responsibility to report on the effectiveness of the agency's system of internal control.
- ❖ The directors have reported the qualification and assumptions for the agency to remain an ongoing concern in the annual report.
- ❖ The following are in proper order:
  - ❖ Calling of Board meetings.



- ❖ Authorised use of agency seals and logos.
- ❖ Disclosure of interests by staff and directors and proper recording of such.
- ❖ Timely review and notification of major legal litigation and risks.

Instances where the system is not working can be found by gathering evidence of such abuses. Records from staff exit interviews, staff grievances, and other channels would provide this opportunity. Obviously, an absence of a staff grievance policy and grievance procedures would hinder the process. When staff do voice out their displeasure, how is this treated? Generally, the management, other than the one member being complained against, would handle a staff's complaint, which would subsequently be documented and be reported to the relevant sub-committees or the Board wherever necessary. Mandatory exit interview is a good tool and individuals leaving the organisation should be promptly given an opportunity to speak with one of the independent parties, directors preferably, and that meeting details are documented and filed for the CE's reference.

Accountability implies some form of punishment is inherent. Therefore, good practice would suggest that the agency should have a documented policy on dismissal and replacement. Staff must be very clear on what would constitute a dismissal. If such a policy is missing, then the system is not working as well.

From time to time, the system should be evaluated independently by outsiders such as independent auditors and management consultants at least once every three to five years to ascertain its robustness and its applicability to other operating systems.

## ***Feedback and Communications***

What is the current status of the situation?

The best way to find out about the current status is to conduct a job description review. The main tool for ensuring that individuals are clear about their job responsibilities and that for which they will be held accountable is the job description. Job descriptions and the frequency in which they are updated and agreed would provide a system of regular feedback to both the holder of the authority and the monitor of that authority. Job descriptions should:

- Be agreed between the job holder and his/her line manager.

- Be written for all staff or, at worst, all key posts.
- Include identified Key Results Areas with performance targets and performance criteria within these Areas.
- Specify the authority that goes with the role and that authority must be sufficient for the job holder to achieve the targets for which he or she is responsible and will be held accountable.

The results for which the job holder is to be made accountable should be:

- Made clear to the individual on first taking up the post.
- Reviewed at the performance review (appraisal) interview held at least annually.

In this review process the Key Result Areas of the job should first be assessed before targets and necessary authority levels are considered. For the Chief Executive and the senior management team their job descriptions, areas of responsibility and level of authority should be discussed and agreed with the Board. This should be done at least on an annual basis. When annual appraisals are done, is there an automatic updating of the job descriptions following the appraisal? An assessor should be cognizant of such clues.

## ***System Linkages***

The accountability and transparency system has two levels of linkages. The first is the linkages of this with other management systems and the other is the linkages of decision making which is more internal to the system. Let's deal with the first linkage. The system is intricately linked with all other management systems because it determines how much information should be disclosed on the one hand, and the level of authority and punishment given to each individual on the other. Both of these two facets fundamentally affect how the agency would operate. Because it is so intricate, we have included this system as one of the core systems.

At the internal level, how decisions are made and linked at each level of decision making would ultimately affect the next level of supervision. There is no need for any agency to have duplicate level of decision making, and hence, unclear accountability. Appropriate disclosure for decision making and information sharing is vital to carrying out the authority.



All NGOs should have a decision making matrix. The decision making matrix may cover a scale that would resemble this order:

From recommending a decision;

- ❖ to reviewing the decision for soundness;
- ❖ to deciding on the decision and bearing the accountability;
- ❖ to endorsing the decision (with lesser responsibility); and finally,
- ❖ to having knowledge of the decision (receiver of the report).

The simple scale below represents the decision making authority on different subjects within an agency that has a CE, a Board, subcommittees of the Board, and department heads or heads of service centres. Agencies may want to use this as a reference. The key is to reduce the number of duplicate decision levels as the items are passed from one layer upward to the next higher level.

An Integrated Decision Making Processes and Oversight Example

	Dept Heads	CE / Sub Com.	Exe. Com.	Full Board
Strategy	Rec	Rev	D	C / E
Policy	Rec	Rev	D	C / E
Operational	D	C / E	I	-----
New Projects	Rec	Rec	Rev	D
Recruitment / Personnel*	Rev / D	D / C	C / E	I
Annual Budget	Rec	Rev	D	C
Financial - Major	-----	D	C	E
Financial - Minor	D	C / E	I	-----

Note: Recommend --> Review --> Decide --> Confirm -->Endorse --> For Information Only

(Source: Li, 2001)



## ***Recommended Steps for Closing the Gaps***

The process of improving accountability and transparency involves three main activities: job description review, decision making & accountability assignment, and establishing an information disclosure policy and procedures. The steps below highlight the sequence for their introduction.

### **Key Steps:**

1. Review all job descriptions and determine how accountability has been assigned. Agree the level of accountability with the incumbent and the supervisor. No assessment is made at this stage.
2. Analyse the extent of key disclosure on three levels - for public consumption, for the Board, and for internal needs, then draft a disclosure and transparency policy.
3. Establish and clarify the roles of the Honorary Treasurer, the Audit Committee, and other Board members.
4. Update and document the job descriptions for everyone.
5. Ensure everyone signs off on the job descriptions.
6. Discuss and agree the level of decision making, accountability, and information provision for staff, committee, Board members, and the Board.
7. Set a timetable on when the new disclosure policy would be put into effect; consider putting all job descriptions onto the web for open disclosure.
8. Internally, allow a period of a year to test run this system. During the next annual appraisal, and Board members should conduct peer review, the system is evaluated and amended. The system of accountability and transparency is then set on a much firmer basis. Incumbent who cannot or would not follow the job description should be dealt with on a predefined set of rules.



9. Document, post, or disseminate the agency's decision-making matrix within the internal working teams.
10. Review the latest requirements from donors and the SWD on accountability and transparency, and update this guide.

# **Good Practices in Systems of General Staff Supervision**

## ***Definitions***

This guideline refers to how employees are being supervised at the agency and the systems and processes in which management are using to supervise their staff. The more sophisticated is the service, the more is required of the individuals providing the service for self-supervision, coupled with having an independent party providing the checks and balances support.

Supervision is a guided process.. Both the supervisor and those being supervised must understand what they are doing and the output or performance needed for the post. The system of supervision is fundamentally about the processes and practices that would bring about better performance for the individual staff: How employee performance is set, appraised, remedied, encouraged, trained, and rewarded.

## ***Purpose and Implication of the System***

There are many ways to supervise and manage the performance of individual staff, some better than others. In many ways, managers must work within the constraints imposed on them by the organisation and by the industry. For social welfare agencies, the unique combination of the rigid performance management system, its value set such as a preference for employment stability, government linked compensation system, and a host of other historical legacies have encouraged certain management practices to prosper. These practices are neither good nor bad, as we should view them in terms of being neither effective nor ineffective in bringing forth the outcome and output of the agency.

With the introduction of the Lump Sum Grant (LSG) and a drastic cut in resources by the government, management practices, management layers, and management posts must be streamlined. Indeed, many of these historical practices would no longer be effective under LSG.

Effective management reduces costs, raises results, and brings about better service delivery, thereby sustaining and building the agency. Ineffective management does the opposite, with an outcome that is detrimental to the well being and long term sustainability of the agency. The choice is clear. No Board of Directors that is deemed to be accountable would choose the latter.



## ***System Features***

Under an environment whereby self-governance is required, each agency needs to find the best combination of management practices that would bring about effective delivery of service and the generation of surplus. Good practices would suggest that creating the performance outcome expected from individuals would require a strong foundation in a host of sub-systems.

These sub-systems are those which have contributed to the quality of supervision: management competencies; recruitment, hiring, and termination; performance appraisals; training and development; and benefits and compensation. Internal personnel policies on attendance, meeting, leave, staff grievance policies would belong here. Leadership, disciplinary policies and systems, teamwork and other competencies would belong here as well. Each of these would be discussed in terms of the current effective practices for NGOs in Hong Kong.

## **Management Competencies**

Competencies are the sets of behaviours that those who are effective in their jobs display. They are the behaviours that distinguish the effective from the less effective in particular occupations. Essentially, they are the things that they do which make them effective. These behaviours are a result of the coming together of three elements:

- ❖ the knowledge needed to deal with a situation or solve a problem;
- ❖ the skill to put that knowledge into practice; and
- ❖ the motivation to act.

If any of these elements are missing, then the competency will not be displayed. Current good practices would suggest that the agency establishes some forms of competency-based performance programs. This is because competencies have been used by the Hong Kong Government for over 10 years, by many leading NGOs in the world, and more importantly, because the framework can be easily introduced to support recruitment, assessment, and training and development. Competency research started in the United States under AT&T in the 1980s and has since been introduced around the world. In Hong Kong, many NGOs have successfully applied competency framework into their HR systems. Competency is also the framework that would be introduced into the HR system for agencies in the social welfare sector.

The research conducted by consultants for HKCSS should be used as the first reference. Since that research is currently not available, we can draw upon similar research conducted in Hong Kong for Hong Kong managers. According to action research conducted by the Management Development Centre of Hong Kong,



the general set of managerial competencies for effective managers working in Hong Kong are these<sup>2</sup>:

○ Leadership: influences others and gets their commitment to perform the desired tasks effectively
○ Communication: delivers his/her ideas clearly and listens attentively to the comments of others in return
○ Customer Concern: identifies customers needs and ensures that they receive the service they require
○ Team Building: involves others and builds teams in which others feel valued and which have shared goals
○ Team Membership: works well in a team, sharing information and seeking the ideas of others
○ Results: continuously sets himself or herself and those who work for him/her targets for better performance. Exhibit a high concern for getting things done
○ Personal Drive: Tries to improve himself or herself and actively seeks new challenges
○ Planning: sets priorities and schedules activities that have an effect on his/her own work efficiency
○ Efficiency: is always seeking faster and simpler ways of doing things
○ Decision Making: is willing to accept responsibility and make decisions within his/her own authority
○ Coaching and counselling: initiates contact with subordinates to improve their performance and help them with empathy to overcome difficult situations
○ Managing Change: is sensitive and positive in coping with the changes which impact upon the operation of the organisation

Each managerial post requires a different combination of managerial competencies, and this set would be determined by the manager’s supervisor, and confirmed by the supervisor’s supervisor. Once set, it is a matter of evaluating the extent to which these competencies have been displayed.

### Recruitment, Hiring, and Termination

Another important sub-system is the recruitment, hiring, and termination practices. An agency’s hiring practices are important to ensure that the all competent staff are chosen based on the resource limitation of the agency and that the agency is in compliance with legal recruitment requirements. Essentially, good practices means that managers must hire the best staff that money can buy and to do so within a reasonable timeframe.

Some of the common practices that are typically done by the management team, often with the aid of the HR personnel, would include:

- ❖ Background and reference checks;

<sup>2</sup> The Management Development Centre of Hong Kong, “The Management Capability Profile”, 1993.



- ❖ Confidentiality agreements;
- ❖ Provision of the employees handbook;
- ❖ Discussion on and acknowledge of conflict of interest; and
- ❖ Probation periods of 3 to 6 months.

Nevertheless, over time, even the best new employees will lose steam. It is important that the recruiting manager bear in mind that the most competent employees would lose their competency in some areas due to neglect and lack of usage. Besides, new competencies are needed for new challenges. It is essential that training and development need to be an integral part of the process.

Employee handbooks, distributed to all employees upon hiring, should explain items such as:

- ❖ Employee benefits
- ❖ Vacation (holiday) policies
- ❖ Overtime rules
- ❖ Outside employment
- ❖ Performance evaluations and the appraisal process
- ❖ Security policies and procedures
- ❖ Data integrity and confidentiality issues
- ❖ Agency expectations
- ❖ Staff grievances procedures
- ❖ Emergency procedures such as typhoon warning hours
- ❖ Training, development, and succession procedures
- ❖ Disciplinary and termination actions for:
  - ❖ Excessive absence
  - ❖ Breach of confidentiality and/or security
  - ❖ Non-compliance with policies
  - ❖ Abuse of authority
  - ❖ Negligence in service delivery
  - ❖ Omission and falsification of service delivery statistics

In general, there should be a published code of conduct for the agency that specifies all employees' responsibilities to the agency.

Likewise, when employees are working below the required performance level and

remedial actions are no longer appropriate, or when the employees have violated key policies that would lead to a dismissal, or when the post is no longer required, then the incumbent must be terminated according to laid down regulations and agency policies. It is unlikely that an agency would want to keep every staff that it has hired as this would require a good deal of extra resources to relocate and retrain existing staff, when in fact more able and less expensive replacements can easily be recruited from the market. It is a balance between managing staff expectations and financial resources and would depend on the agency's priorities and values. The agency must determine on its own how it would want to allocate its limited resources over conflicting demands for resources.

Regardless of priorities, termination policies must be put in place. Written termination policies should be established and laid down in advance, to provide clearly defined steps for employee separation. It is important that policies be structured to provide adequate protection for the agency's existing assets in people, computer, data, and know-how. Termination practices should address both voluntary and involuntary terminations.

## **Training and Development**

Training refers to short-term 'skills' development and development refers to medium to long-term 'overall' development of the individual. Training encompasses learning new skills and the typical method is through course attendance and participation. Development actions may include secondment to another department, provision of teaching opportunities, mentoring, coaching, or appointment onto trouble-shooting and quality assessment teams.

The best staff, if not adequately trained or provided with the opportunity for continual development, will no longer be competent as new challenges are introduced. Under LSG, all agencies will proactively seek new challenges. Therefore, training should be provided on a fair and regular basis to all employees based on the areas where employee expertise is lacking. Good practice would suggest that the agency would need to have a simple system to allow the staff to find out their own development needs, to encourage the supervisor to help identify such needs, and to have the agency sponsor 'job-related' training.

This is particularly important for agency professionals given the rapid rate of changes in technology, service, products, and expectations of the service recipients. Training not only assures more effective and efficient use of resources but also strengthens employee morale if properly introduced and reinforced back at work. The supervisor must play his role by allowing training to be reinforced at the post.

Cross training or multi-skilling in which having more than one individual properly trained to perform a specific job or procedure, is often used in well-managed



NGOs. Multi-skilling provides a backup for personnel in the event of absence for any reason and thereby provides for continuity of operations, and as a form of job enrichment and forming a part of the succession plan. This practice has the advantage of decreasing dependence on any one employee. However, in using this approach it would be prudent to have first assessed the risks of any one person knowing all parts of a system, particularly access to confidential databases and what exposure this may cost the agency.

## **Performance Appraisal System**

A strong and working appraisal system provides the checks and balances needed for effective supervision. Good practise would suggest that employee assessment must be a standard and regular feature for all staff. Having a regular appraisal process provides an extra but mandated channel for the staff to communicate with his/her supervisor, centred on the performance or mutually agreed goals/expected results. Assessment can be set against these goals/expected results only if the process is objective and neutral; and it is important for the agency to lay down clear procedures on how such process should take place.

Checks and balances, limited transparency, fairness and equity, annual review, and meritocracy are important characteristics of a well-structured performance appraisal system. Checks and balances mean that any comments written on the assessment form must be known to the person being assessed, the assessor, and the assessor's supervisor. It would not be fair or transparent if the process is abused. For example, for senior managerial staff who report directly to the CE, their appraisal should be countersigned by the Chairman. Meritocracy suggests that good performers should be provided with higher levels of reward - financial or non-financial over bad performers. Salary increments, performance bonuses and promotions should all be based on good performance.

## **Compensation and Benefits**

The philosophy behind compensation at any organisation should be based on performance, that is, performance linked to pay. In keeping with the new initiatives to recognise and award performance, the agencies may need to install a number of new processes and forms to strengthen the performance appraisal system for senior executives and ultimately to move the system towards pay based on performance.

Best practices would suggest the agency must balance three competing goals. The benefits and compensation system for an NGO is typically set up within these three boundaries:

- ❖ to enable the agency to compete for qualified staff in an evolving environment;
- ❖ so that they may pay employees equitably and fairly; and
- ❖ that the agency can be seen to be fiscally responsible.

Every agency needs to find a set of pay-scale that is both internally realistic and externally competitive, without being overly generous. Pay must conform to a well structured pay-scale for the employees, and internal pay equity must be maintained. It is important to consider both internal and external factors as pay decisions are made. Internally, importance should be placed on equity in relation to others in like jobs, as well as an individual's skills, knowledge, performance, and job-related experience. Externally, the relevant labour market will be monitored to determine market movement, keeping in mind its effect on employees and their respective pay. The external market consists of other NGOs and social services workers and managers with whom the agency competes for employees with relative skills and experience.

## ***Accountability***

The system of accountability is a cascading one, that is, each supervisor is responsible for the performance of his/her direct reports. The pyramid extends upward all the way to the CE who is held accountable for the general supervision of the entire agency and the individual performance of all the agency's employees, which together would bring about the organisational performance as required and expected for the agency.

At the highest level of the agency is the Board of Directors who will supervise and appraise the performance of the CE.

## ***System Integrity and Review***

Management and supervision is usually required as the working teams become too large or the projects become too encompassing, involving the participation of too many parties or too many parts. As services multiply in complexity and employees attempt to raise their level of service quality, there will bound to be conflicting demands on resources, people, time, and facilities. When projects come in late; when there is a good deal of duplication of efforts; when key staff are not sure about their roles; when supplies and parts or supporting services are unavailable when needed, then we can tell that management is absent and that the system of general supervision is not working.

There is a fine balance between under and over-supervision. The higher the rank, the higher is the need for the incumbent to have more flexibility in decision-making and to do so with the minimum amount of supervision. Under LSG, senior staff need that level of manoeuvring room. Senior staff as experts probably do not



function well under a restricted and tightly supervised environment where how they carry out their work is constantly questioned. At higher levels, the focus is on the output and outcome, and less on the process or input.

## ***Feedback and Communications***

What is the current status of the system of general supervision? Does the Board know how staff performance is set, appraised, remedied, encouraged, trained, and rewarded? Are staffs generally performing at their level of ability and competency?

The assessor can begin to find out about the current status by working backwards through the indicator set, that is, from outcome to output, to process, and finally to input. If organisational outputs are not met, then the CE and the management team are performing below the required level. If departmental outputs are not met, then the department heads are performing below par. If projects are late, overrun in terms of costs and resources, then the project managers are suspect. All these assessment presupposes that objectives have been set. When such objectives are not set, then the party responsible for not setting them should be suspect. This role may belong to the CE, the head of each committee, or even the Board of Directors.

Generally, formal appraisals must be done at least once a year, and every party that has a role in producing the work should be assessed by the next higher level that is responsible for the output and outcome of the service deliverables. In this sense, customers and service recipients can assess front-line workers and their comments would be added to their personnel appraisal. In leading NGOs, the CE would be assessed; and the Board of Directors themselves often would assess themselves or be assessed.

Feedback need not wait for a year to be given. Best practices would suggest that at key intervals of the projects or at the end of every project, the team should conduct a self-evaluation. Supervisors should give frequent and daily feedback as this would aid and extend the quality of communication between the supervisors and the supervised. There is no hard and fast rule on how frequent should feedback be given. Again, the lower the rank and the younger the staff, the more frequent should be the verbal feedback.

## ***Systems Linkages***

For this system to work, it must be intricately linked with some of these management systems:

- ❖ Performance management and measurement system;

- ❖ Strategy formulation;
- ❖ Policy structure improvement in which a quality policy should exist;
- ❖ Monitoring and information management;
- ❖ Change management; and
- ❖ Service quality.

Staff are employed for one single important reason, and this is to produce their contribution towards the service outputs of the agency. Unless the agency has clearly identified what these outputs are and set specifications for the deliverables of the outputs by the staff, the agency will not know how well the staff have done. Therefore, having organisational performance indicators is the first step. Having them cascading down to the individual departments then to the individual would be the next stage. These indicators would be visible in the job description and targets for the individual posts.

Performance management and measurement, linked to the agency's strategy, reinforced by the newly introduced performance management system, and made real by the everyday reporting of key indicators that reflect how well the needs of the service recipients have been met, all contribute to the soundness of this management system.

## ***Recommended Steps for Closing the Gaps***

In order to improve upon the current system of general supervision, the following steps are suggested:

1. Look at how targets are currently set or cascaded from the strategic plan, down to the annual plan, to departmental plans, and finally to the individual plans. See if there are discrepancies in situations where individual targets were all met last year but the organisational goals were short by a good margin.
2. Revise the annual targets for each department and discuss with the department heads and heads of service centres on how performance targets can be cascaded down to the individuals.
3. Check to see which of the systems features are currently not up to good practice standards and work with the staff concerned to bring about the introduction of the missing practices.



4. Analyse how the various systems linkages are reinforcing one another or strengthen the current system of general supervision.
5. Introduce a mandatory system of regular feedback and self-evaluation, such as the formal annual appraisal, or end-of-project appraisals for the agency.
6. Review where supervision of the process is unnecessary or overly cautious and where supervision is overly lax. Refer to the discussion above on the balance between under and over-supervision. Typically, new processes or those that have high error rates would require a much closer monitoring requirement.
7. Ask the supervisors to speak with the staff of the supervisors' direct reports on a regular and informal basis. Managing by walking about is a good and effective means to keep tab on the employees. However, this should be handled with care and the staff should not be encouraged to bypass one's supervisor; and at the same time, not be discouraged from informing the supervisor's superior on unfair practices or other unjust supervision.

# **Good Practices in Succession Planning**

## ***Definitions***

The Succession Planning process is the means by which the organisation attempts to ensure that it has the people it needs in the posts where it needs them and at the time that it needs them. The Succession Plan is an integral part of a rolling three-year planning system and should be revised annually after the Strategic Plan itself has been reviewed.

## ***Purpose and Implication of the System***

### ***Why do we need this system?***

Ask yourself this question: "What if one of your best managers was accidentally hurt in an accident and won't be returning to the agency for the year due to some personal reasons? What would you do?"

One of the purposes of the Board is to ensure that the work of the institution can carry on from one year to the next, and even from one generation to the next. This involves having plans for succession as old leaders go and new ones join the organisation. One of the most important roles for any Board is to ensure succession is being carried out at the management level in a fair and equitable manner. An agency having the best plan but fails in execution because of a lack of leaders and managers is not being governed and managed properly.

As each agency acquires more authority to set its own pay scales, it will inevitably have to be alert with pay terms in the market. It will begin to lose employees if the scale is not competitive and find it difficult to regain new ones when it needs them. Nevertheless, employees do leave an organisation for a number of reasons and compensation is only one factor. The rate of replacement will depend on a number of factors and the agency will need to have a system that can help manage such staff fluctuation.

Succession planning is the best system for this. It is about the deployment and development of human resources for the future. Succession planning means planning ahead, laying the groundwork for new leadership before the lack of leadership becomes evident. The focus is on being proactive, installing preventive controls over compensating control. When someone suddenly departs an



organisation, does the organisation stop at a standstill? An effectively run agency should be in a position to ensure smooth transition of management, and is not left in a bind when someone suddenly departs. When a vacuum in position exists and the agency is unable to find a replacement for over a year, this suggests a lack of oversight. This immediately suggests the incumbent's work is not being done at the same level of efficiency or effectiveness, after his/her departure; or that someone is doing his/her work without being duly recognised. Either road eventually leads to more management problems.

There are millions of reasons why succession plans are not needed, and management can probably come up with the majority of them. There is only one reason for the Board to have such a plan...for the communication and monitoring of the organisation's long-term viability and sustainability. We have to build a system to ensure that the agency is not held hostage by anyone single individual, however effective that person has been. No one is indispensable, and a well structured succession system would make this into an operational reality.

## ***System Features***

The Succession Planning is a planning process and contains principally succession plans. Succession planning is discussed often in an organisation that has potentially a high labour turnover, and one of the reasons for such high turnover is that the planning process has been mismanaged. Staffs are paid to do their job but are groomed for the next post by the organisation. When future prospects wane, turnover inevitably will be higher. Drafting the plans will help to reinforce the linkages with the agency's strategy, its training and development allocation and budget, and the individual's performance. There will always be labour turnover and an agency with no turnover is unrealistic. Succession plans ensures a smooth transition from one phase onto the next.

The process of succession planning for management begins at the Board and cascades down to the department level. If Board members participate in management of the agency through the committees then there should be succession considerations when members depart and new ones join. The process however needs not stop at the management level and often the Board is involved in its own succession planning as well.

There are three levels of succession plan - one for the Board members themselves, one for the committees of the Board whereby other members take the lead of committee chair when the official chair is absent, and one for the CE and management team.



This process is done at least once a year or once during the term of the position, but typically after the annual performance process. For the executive team, the Chief Executive or typically the head of HR is asked to initiate this process for the internal management team and the compilation of a series of plans. (For Board-level succession, the Chairman or the Vice-Chairman would initiate this process for the committees.)

A Succession Plan is a confidential document and has these features:

- ❖ It usually contains information only on those people at present being employed by the organisation.
- ❖ For each key post it shows the present holder of the post, the immediate replacement(s) for that individual should he or she leave plus the medium (less than 1 year) and long-term replacements (longer than 1 year).
- ❖ For each individual appearing on the plan there will be summary information on the performance (from the individual's performance appraisal) and future potential of that person as well as his or her age.
- ❖ For each potential candidate for the post, HR will recommend how or when the individual will become competent for that new post. This may be a series of training or development action, on-the-job training and outside posting, or more educational requirements. These form the basis of the agency's training and development plan.
- ❖ The information contained in the plan is updated using data from the performance review system in the organisation.
- ❖ The training and development plan so derived is matched against the agency's overall training needs, budget, and new competencies as they are required and specified under the strategic and annual plans.

When these features are present and when the plans are integrated and updated with the T&D plan and strategic plan, and the succession planning process is operating as a preventive tool, then the system features are operating at the best practice levels. If the agency is experiencing hiccups with sudden departures of key staff leaving vacancy that is not filled within 3 months, the features would need amendment. The best features are not working when the agency cannot be operating at as an ongoing concern. In an effectively run organisation, no one is indispensable. The organisation should have individuals standing by to replace and refresh vacancies as they become available. Please refer to the section on System Integrity for more discussion.



## ***Accountability***

The succession planning process is initiated by the Board, and the Chief Executive is asked to implement the plan for management. Since there can be three sets of plans - one for the Board members in committees, one for the CE, and one for the department heads and key staff - there are two levels of accountability. The Board is accountable to the existence of a succession plan for the Board itself and for the Chief Executive. The Chief Executive is accountable for the succession plan of his/her direct reports and key management team. Nevertheless, depending on the size of the organisation, this responsibility may even cascade down to the head of department level who would develop a succession plan for his/her own department.

Basically, the keepers of these plans would belong to the individuals who were responsible for drafting the plans. A copy is kept at the HR Department as they would need to see the aggregate picture of possible posts and candidates eligible for replacement for each post. All succession plans are sent to the Board through the HR Department (as in the case of management) or the Board Secretary (as in the case of the Board and CE) under confidential cover to the Board for final review and endorsement.

When the succession plans are validated independently and discussed by either the HR Committee, the Audit Committee (if any), or Executive Committee, and the agency has three levels of succession plans, then the accountability system is clearly enforced and is operating at the best practice level. Please bear these in mind:

It is the responsibility of each section and Department Head to keep the succession plan up to date. The HR Department simply collects and uses these plans.

Ultimate responsibility for the plan rests with the Chief Executive and the Board.

## ***System Integrity and Review***

In a turbulent environment, the ability of the agency to weather storms and unpredictable disasters such as SARS clearly reflects the integrity of the system. In today's environment where the demand and stress on the CE is extremely high, the turnover rate of top management will most likely increase rather than decrease. When key services as mandated by the FSA can be continued uninterrupted, without the Board or senior management calling emergency meetings every time, the system should be working.



Conversely, the system is properly not working when one of the following is true:

- ❖ A senior member departs and the agency is not able to find an immediate replacement within one month;
- ❖ The Chief Executive suddenly departs and the Board has to search for a replacement;
- ❖ The Chief Executive has never been assessed;
- ❖ The Board has no idea who are potential CE or deputy CE materials within the organisation;
- ❖ The replacement CE joins the agency and leaves within 3 months, or during the probation period because expectations were not properly managed;
- ❖ The Board has not been able to put in place emergency transition when the CE suddenly departed recently; and
- ❖ The Board members do not understand that succession planning is one of the most important responsibilities of a Board member.

Having succession plans in place is one level of system compliance. Having these plans linked and updated with T&D plans would be at a higher level of maturity. Having the system validated by an independent party, such as the HR Committee or the Audit Committee would be a sign of a mature and well-governed agency. When succession plans exist for all three levels - Board, committees, and management - the agency is operating at international best practice.

The final test is in the agency's ability to continue, steady as she goes, with the right leaders in place. The succession plan can act as a summary and guide to promotions and replacements in the organisation. However, it is common practice for all posts to be advertised externally when they become vacant. This enables the organisation to make sure that it obtains the best people for any post and does not become too inward looking. As a last line of defence, the Board members are given an opportunity to see the vacancy when they see the ad.

An example of a working system would resemble the following. Assuming an agency needed to establish a succession planning process for the CE, best practices would suggest the following actions/practices to be taken:

- ❖ The replacement of any Chief Executive and the identification of immediate, medium-term and long-term replacements for the current holder is the responsibility of the Board.
- ❖ The plan may contain the names of individuals not currently working in the organisation but known to the Board.
- ❖ The post of Chief Executive is always advertised but individuals within the agency are allowed to apply for the post, on a



confidential basis so that the organisation can be seen to be operating in a fair manner.

- ❖ The Chief Executive's performance is evaluated and documented by the Chairman or a representative of the Board on a regular basis. This is done annually or every 6 months before the expiration of the CE's contract. This information serves to signal to the Board when a replacement may be needed.
- ❖ To keep things updated, the Board requests the CE to update his/her CV at least once a year, to reflect the requirements of the post.
- ❖ The written document serves as an agreement between the Board and the CE on their respective roles and mutual expectations.

## ***Feedback and Communications***

How does the Board find out what is the current status if a succession planning process has never been introduced? The first place to check for the existence of such plans (written) is with the CE and with the HR department. If that is missing, the Chairman must have a plan, ideally written down somewhere, on his/her idea of critical positions and critical replacements. If this information cannot be provided within 24 hours by anyone within the organisation, the system is not working and will need an overhaul or the establishment of such a system.

The succession plan works better when job descriptions are updated annually, when training and development plans are linked to the performance appraisal process, and when new or replacement headcounts are being reflected in the strategic plan. All these other plans have their own replacement and updating periods. Please refer to these plans individually.

The plans act as the main communication tool. Succession planning should be done once a year or at least once during the term of the incumbent. The plans need to exist for this system attribute to be considered ad hoc. Succession plans should be a regular requirement within the agency and discussion should be highly confidential. It is a matter for the Board, the HR Committee, and the CE to determine how frequently the plans should be communicated and distributed to the Board. Succession plans are never disclosed to the incumbent. The CE, for example, should never see his/her own succession plan. He/she may suggest replacements, but the choices are the Board's.

## ***System Linkages***

The succession plan cannot and should not stand alone. More than having simple linkages with other systems and plans, these other plans must be updated and whose information would feed into the succession plans. The succession plans are linked with other 'updated' organisational plans, such as the T&D (Training and Development) plan, the performance management system and the annual appraisals, and most importantly, with the annual and strategic plan. The plans are intricately integrated with the T&D needs for each individual in the organisation. Conversely, individual succession plans are, of course, reviewed as part of the performance review system and are fed into the organisation's plans.

A policy should be in place to document the purpose and importance of this plan. Employees understand they will be groomed for potential posts and that all key roles have succession plans. When the succession planning process is undertaken by and extended into the department heads for their key staff, then the plan is now operating at a high level of maturity within the organisation. When the Board can identify replacement for key positions for management and for the Board, within just 24 hours, it is operating at a best practice level.

## ***Recommended Steps for Closing the Gaps***

Putting in a system to enhance succession would demand a belief that the system can aid the agency in improving its corporate governance and management development process. For the agencies that have not started on this journey, the following guide would serve as a reminder:

1. Identify all those who would be retiring or leaving within three to five years;
2. identify at least two potential replacements for each of the current incumbent, and for each replacement, indicate what is needed to bring the individual up to the current competency level as required by the post;
3. Determine the training and development means with which these replacements would be able to gain the required competency that they would need - mentoring, coaching, on-the-job, secondment, etc;



4. Grouping similar requirements, the HR Director should compile and install a system for developing and investing in the potential replacements. This discussion and report is linked to the individual's performance appraisal process and the Director would set aside budget for the development of these individuals. For key posts, the HR Director would put special emphasis and attention to ensure that post cannot remain vacant longer than 3 months; and
5. The process is repeated similar for different grades of staff, with the Board of Director responsible for the succession plan of the Chief Executive.

# Good Practices in Monitoring and Information Systems Management

## *Definitions*

This component refers to the management systems for monitoring and reporting information to decision makers, essentially the Board and management. Today's NGOs often employ computerised information systems to make their operations more efficient. Types of information management systems include decision support systems (DSS), executive information systems (EIS), management information systems (MIS), and governance information systems (GOVIS).

## *Purpose and Implication of the System*

As NGOs nowadays are inundated with ever increasing volume of data and information generated, the well-managed NGO agencies often would place a strong emphasis on how best to streamline the monitoring and information reporting process for their service centres and stakeholders such as the Social Welfare Department (SWD)<sup>3</sup>.

Managing the volume of information to be generated, reading the reports generated, and using the information to make decisions are three important pillars of good management. No agency can afford to waste valuable resources compiling reports that few would read or that which do not contribute to better decision making. That is, one cannot make a sound decision based on the information as provided without asking for more and refined information.

The Board of Directors is the first and highest level of management that places a great deal of importance on the value contributed by different information systems. In many organisations, the Board in fact is no longer considered management but providing the role of governance. This is particularly true for Boards that do not take on any executive or execution roles. These systems would range:

from Service Transaction Processing System (TPS) used by staff,  
to Management Information System (MIS) used by management,  
to Decision Support System (DSS) and Executive Information System (EIS) used by

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<sup>3</sup> Sometimes the best way to get the Board of Directors off one's back is to feed them with lots of information, so much so that no independent director would have a clue as to the directions or strategy of the agency.



heads of department and the CE,

to Governance Information System (or GOVIS) that is used by the Board.

The Board would be placing more emphasis on higher level systems (GOVIS, EIS, and DSS) because these should signal shortfalls in performance. Since the Board doesn't have the time or the responsibility for the day-to-day work, the board must be able to seek out reliable, big-picture type information from the organisation that is crucial for control and growth. It would be too easy for management to simply pass management information that they receive upward to the Board but this would defeat the value which the Board could bring.

An effective Board is one that knows how to utilise EIS and GOVIS to manage its information overload. In fact, this is the first sign to look for, to see whether the Board indeed has a high level decision support system to help it make decisions. A related question would be: "Does the Board have a helicopter view of the situation and how do they come about understanding the situation as it stands?" The system needs not be a computerised system. The existence of some paper-based reports with clear executive summary, graphics, and trends analysis would be indicative of the presence of such a system.

## ***System Features***

Monitoring and supervision takes on an added significance when the agency considers that some of the money are donated or subvented by the government and others. Monitoring is needed when budget is no longer abundant and must serve to bring in more revenue. Unless monitoring is done properly, donors and sponsors may stay away from the NGO.

In the next section we will look into how the Board identifies their list of the exceptions and understand the working of an EIS in providing such exception management reports that would signal either a shortfall or a windfall for the Board and for the senior management team.

Readers are encouraged to reference other good practices as this is being read. From the guidelines on performance management, the assessor would have realised how the Balanced Scorecard could be used as a framework for categorising the various indicators for the Board and for top management. The Scorecard is a categorisation. We should now focus our discussion on the mechanics that go into the EIS or the main application system in which monitoring and information reporting can be strengthened for NGOs.

## Executive Information Systems

An executive information system (EIS) is a database application that allows senior management and the Board of Directors to visualise, interpret and understand relevant information. A well-organised database system provides easy access to the large amount of information in the form of summaries and visualisation in a user-defined manner. Data can be better focused when meaningful patterns and trends are abstracted from the various databases where information is stored.

Typical features of an EIS include:

- Briefing book: set of key reports and graphs
- Enquiry: features that enable the user to browse through and drill down<sup>4</sup> into the entire database to look at data in multi-dimensions
- Hot-spot: pre-defined locations on a display that will trigger further events
- Exception reports: reports showing unusual performance against budget/plan
- Trend analysis: graphs showing movements of indicators against time
- Graphical user interface (GUI): use of icons and buttons that respond to user selection by mouse or touch screen
- What-if analysis: automatically generated extrapolation and extensions of sets of given figures.

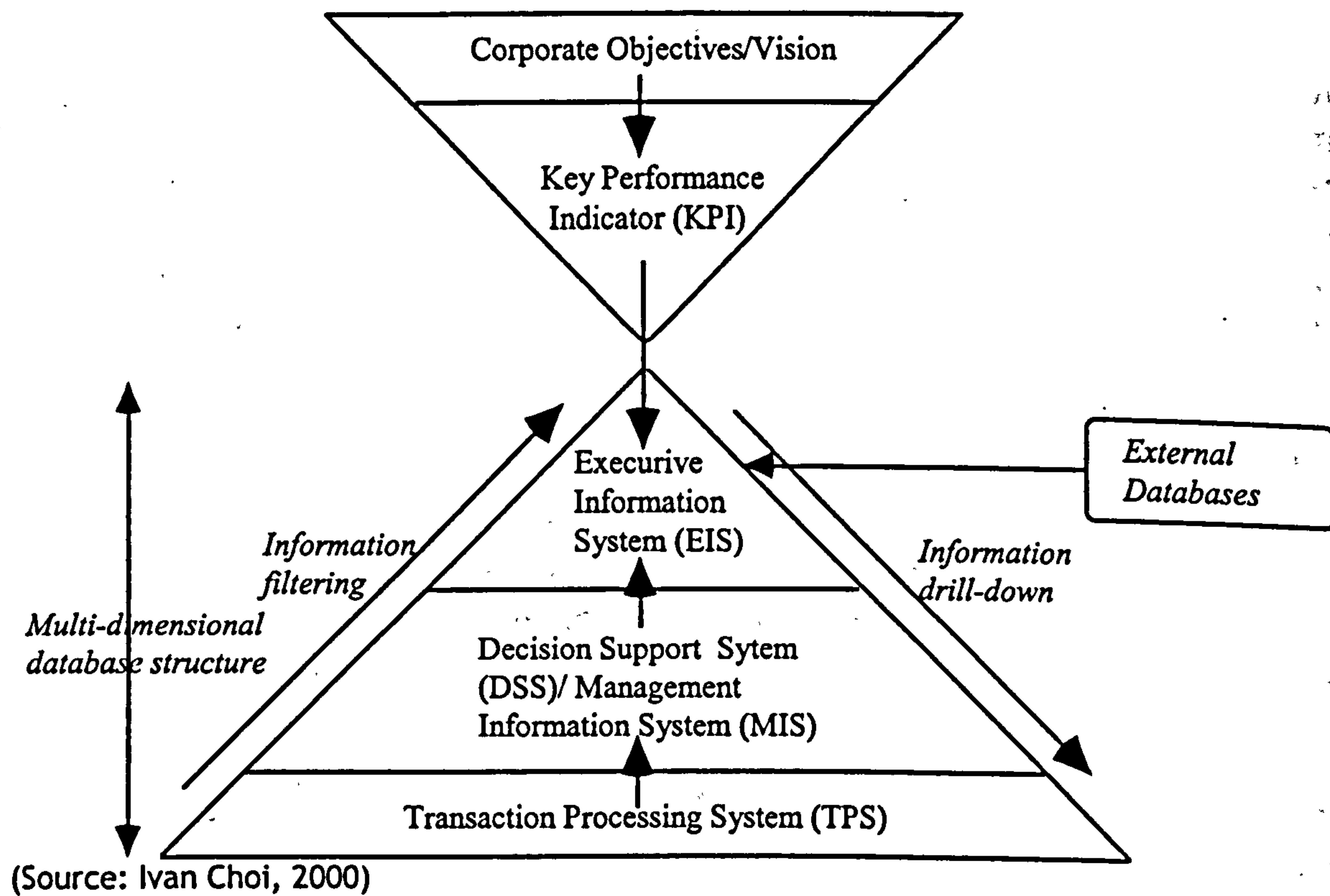
The emphasis of EIS is to use technology to make better and more meaningful use of existing information, and to enhance existing good practices not to redefine what should be done. Characteristics of an executive information system (EIS) are that it:

- is designed explicitly for the use by senior management without technical intermediaries;
- requires a greater proportion of information from outside of the business of the agency;
- contains structured and un-structured data;
- uses state-of-the-art integrated graphics, text and communications technology.

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<sup>4</sup> Drill down: a means of calling another level of detail. For example, an information system on the Board should be able to drill down to customer information system at the operational level, to the extent of seeing the summary information on a key customer.





## Corporate objective/vision

The collection and interpretation of information with an executive information system should be driven by the corporate or agency objectives or vision.

## Key performance indicators

The corporate objectives are translated into critical success factors, which are formed into Critical Control Components (known as Key Performance Indicators in some quarters) that are fed into the executive information system. The KPIs reflect the EIS users' "mental maps", i.e. how they think of their business and what information they need to exercise control.

## Executive information system

An EIS interprets data filtering from the company's information systems and from external databases to report outcomes of the key performance indicators. As a result, the Board and senior management are able to get access to the underlying data easily, using "drill down" and "hot spot" techniques.

## Decision support system (DSS)/MIS system

Processed data from the transaction processing system will be fed into the DSS/MIS where management information is generated to support decision making or for management reporting by middle management.

## Transaction processing system (TPS)

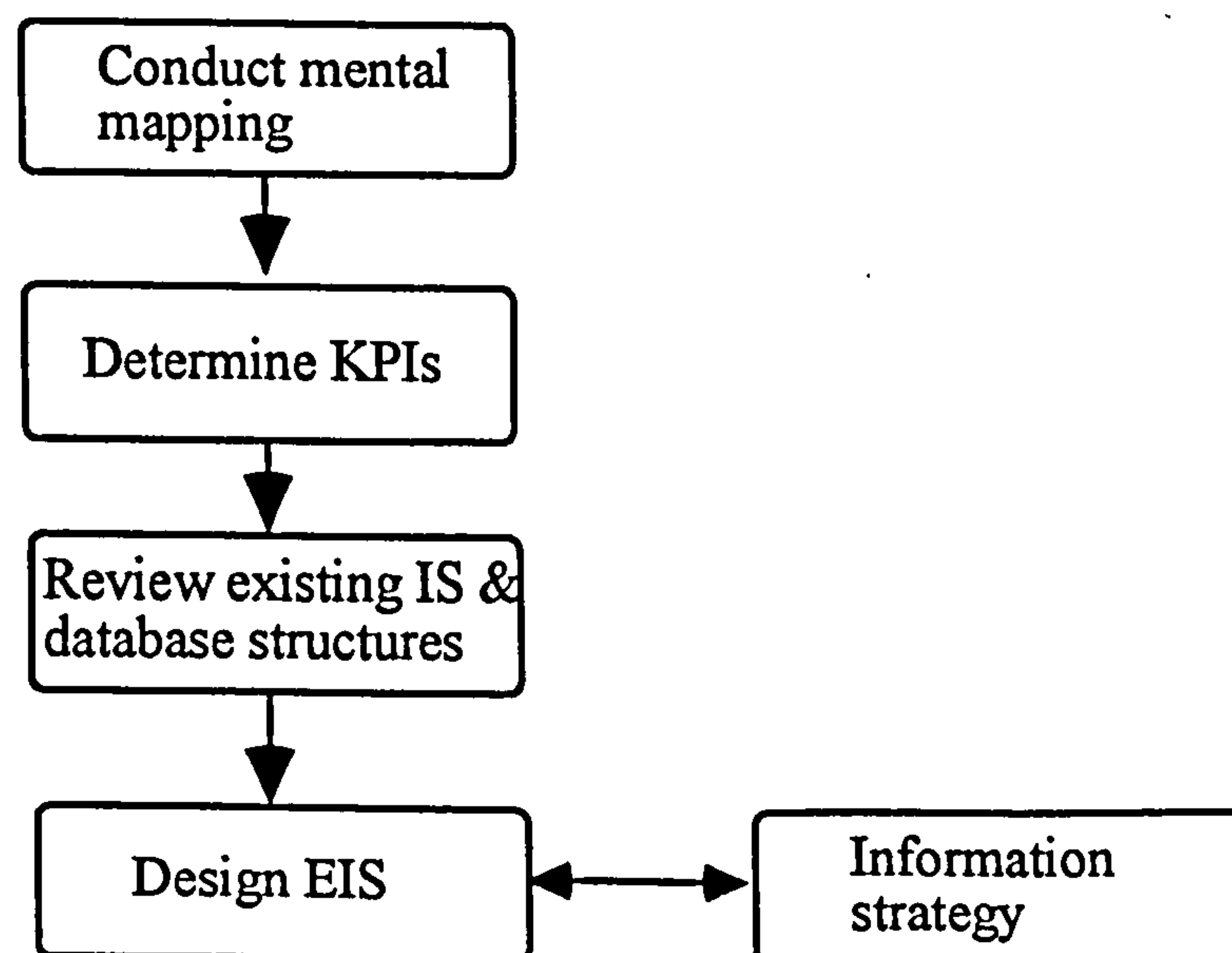
A transaction processing system is where the underlying transactional data is being kept and processed.

## Multi-dimensional database structure

The agency's information systems must be structured in such a way that there is a hierarchy of data complexity as well as multiple dimensions of data reporting formats to reflect the executives' mental maps.

To develop an agency's EIS, the following is one approach that can help the Board of Directors in drawing this EIS.

## The Implementation Approach



### Conduct mental mapping

Mental mapping is the first step because it is important to ensure that the EIS database reflects how an executive thinks about its business, his/her mental map. What the executives think about their business will be directly related to the organisation's vision and the KPIs they want to monitor.

- Mental mapping is done through in-depth interviews with senior executives.

### Determine KPIs

- Select KPIs with reference to the organisation's vision, and



the senior executives' mental maps.

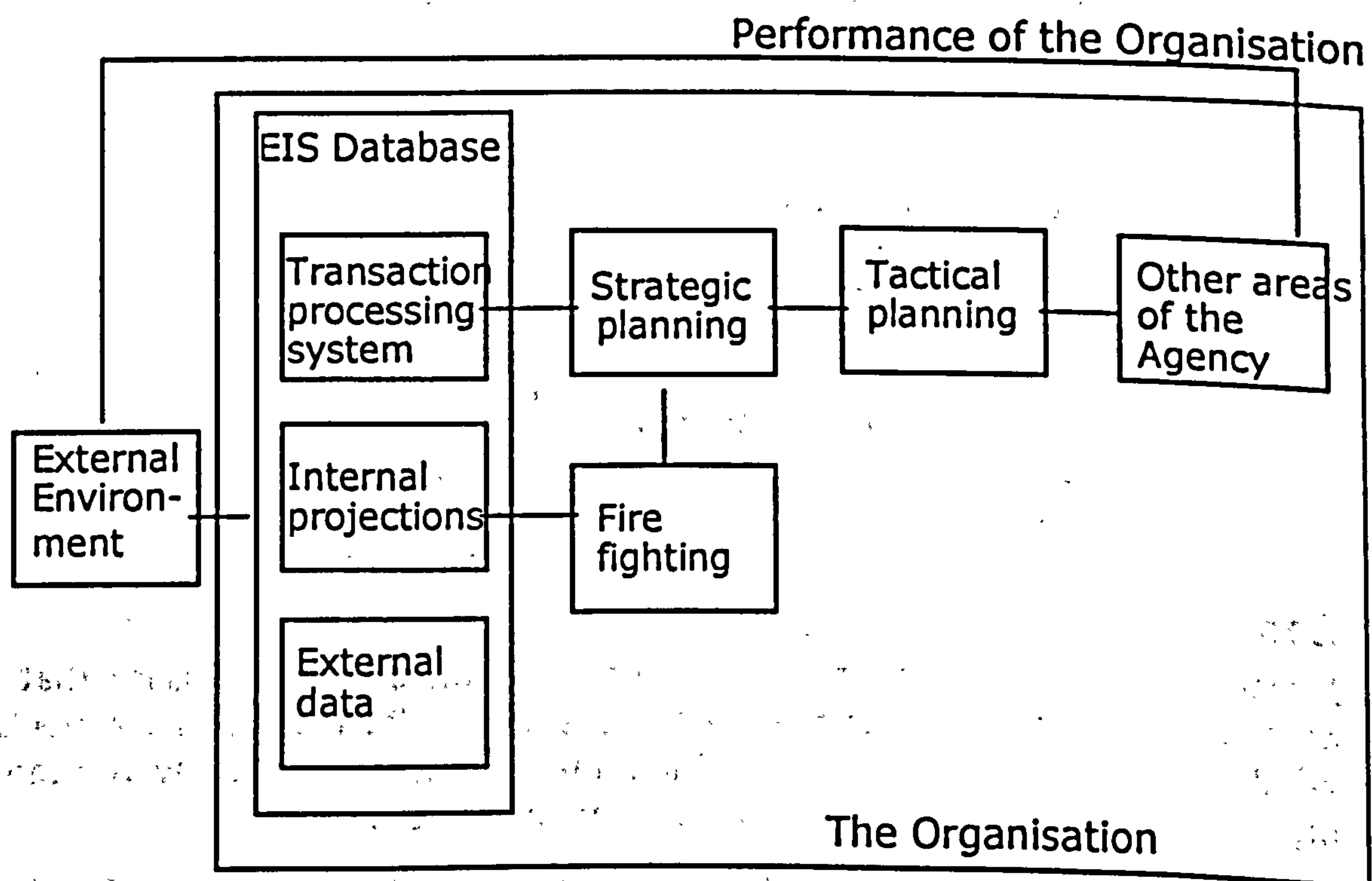
## Review existing information systems

- Review existing information systems in terms of database structure and design, and technology adopted.
- Determine the gap: what is required to implement an EIS using the existing information systems as basis.

## Design EIS

Design of EIS, which forms part and partial of the information strategy, will focus on:

- Type of information;
- The process of information selection, collection, retrieval and control;
- Technology adopted; and
- Personnel involved.



The second type of information system, particularly for corporate governance by the Board, is the governance information system or GOVIS.

The GOVIS framework grows out of the technologies behind EIS (Executive Information System), DSS (Decision Support System), CRM, and ERP framework. GOVIS differs slightly from an EIS in that the users (i.e. the Directors) are expected to know how to fine-tune the requirements, which change frequently in reflection of the fast changing external environment. GOVIS are difficult and expensive to design because of the short shelf life, but are effective and value-added if properly designed. Only the best NGOs are expected to have a GOVIS for their directors

## ***Accountability***

Only the Board can monitor and supervise management and only a higher level of management can do the same for a comparatively lower level. For example, the Board would monitor the work of the CE, who in turn, would be tasked to monitor the work of his/her direct reports, and so on. Employees should not be put in a position or be asked to monitor and supervise themselves as much as possible. For NGOs, this responsibility includes the appropriate role at the appropriate levels to appraise, monitor, and evaluate the performance in all its commitments, both financial and non-financial ones.

There are basically three levels of accountability with three levels of information management systems that can be developed: EIS; DSS and MIS; and transaction processing system or simply the agency's operations management system respectively. Each level of management should be responsible for seeing that the systems it uses are appropriate for that level.

The first and highest level of monitoring is to ensure that the NGO has an effective and sound EIS in place belongs to the Board and to the CE. These individuals need the EIS to make effective decisions quickly and precisely. The executive information thus provided to the decision makers can be paper-based, verbal, and/or computer generated. It needs not be a computer based system at first as computer essentially would be built upon the paper-based format. If the information provided frequently cannot allow the decision makers to make decisions, then the information systems developer should be held accountable for developing a system that is not reflective of the needs of the users. In practice, this function translates into some of the following activities for the Board and/or CE:

- Reviewing action plans developed by the management.
- Ensuring adequate provision has been made for both revenue and capital investment.
- Reviewing timely and sufficient information from all departments, including service centres; if any.



- o Reviewing the performance of the Chief Executive but maintaining a good balance between supervising and developing a good working relationship with the Chief Executive without undermining his/her delegated authority.

The second level for accountability is to ensure that the management information system (MIS) or DSS make sense and are what they appear to be. Those reporting to the CE, heads of service centres, would all use these systems which provide summary information about the everyday service transactions at the agency.

The third level belongs to the operations people, frontline workers, and support staff who must use the operations-based systems. These may include the CRM systems, the financial information system, accounting system, service recipient registration system, and others that are used to track and reporting on the current status of the activities. ERP is sometimes grouped into this category.

## ***System Integrity and Review***

Is the system of monitoring and information reporting working? How can the assessor tell if the system is working or not?

Generally speaking, the monitoring and information reporting system is working when the agency is able to monitor the key service levels of its major service or product items and is able to develop a remedial program quickly for major variances. If the assessor is not able to provide short and focused evidence that the agency has achieved its objective, the assumption is that agency management and the Board do not know about the system integrity. The aim is on simplicity, timeliness, and focus on reporting items that matter. If the processes or outcome need not be reported and no adverse effect would result, even if the report is a month late, then the CE should seriously consider removing the report from its reading list. Good practice would suggest the Board has a short list of key indicators and key progress reports that are frequently monitored (or updated by the time the Board meets). These items are required by the CE and an extra copy is provided to the Board.

There are other clues to system integrity. The first hint is in the long process in processing the information, such as seeing a continual long delay in decision-making at the senior levels where continually key decisions are not made, delayed, made with frequent reservations, or frequently badly made without regard for the consequences. When such hints are evident, then the information system will largely be at fault. When the Board never or rarely meets in a formal meeting or when they rarely review the information provided to them, then the system of



monitoring is not working for the Board. When annual appraisals are often delayed or never carried out, then one would question the strengths and integrity of the monitoring system at the working levels.

The second type is the quality of information. When key reports do not exist, then the system cannot be working. When the information is wrong, inappropriate, or misleading, or does not provide clarity and does not contribute to making fast and effective decisions (by the right level), then the system is suspect. Nevertheless, the assumption is that the individuals are qualified to assess the information and understand what they are looking at. Conversely, when there is too much information, the system is properly not working. When the Board or management has requested selective control, not total control, and only sufficient control on those items that matter have been reported, then the system should be fine. This is not the same as total control, which includes everything. The Board is expected to refrain from interfering into the daily operational work of the senior management and will only do so to restore order. This is the difference between monitoring and actual management.

The third aspect is about encouraging the lowest level to make decisions. Given today's rapidly moving environment, an organisation can no longer wait for the CE to make all decisions. Speed of delivery is an important service attribute. As such, the agency should aim to provide information to the right level (including the front-line) at the right time for decision-making as this will reduce the need for further processing by other levels. When the front-line can process the information and no further value can be added by the next level, then the next level is probably redundant. Efforts are encouraged to provide sufficient information to the front-line so that they can make decisions on the spot, and without deference to higher management and the Board.

To bring the system back to order, there are many methods and practices for doing so. All of which are linked to the ability and the responsibility of the Board to focus on the key performance areas.

One method that have worked for some Boards of Directors to improve their decision making and monitoring accuracy is to have management help it identify all the critical measurements it would need, then install an infrastructure where such information can be fed upwards. Many systems have been developed with this concept in mind, and they range from the esoteric Enterprise Resource Planning System (ERPS) to a high level EIS. The systems provide exception reports, sending signals to the Board, on any deviation from the norm. Naturally, this assumes somebody have derived a norm in the first place. Typically for large NGOs the business or service targets are the norms that have been agreed by the Board and management. Deviation from the planned activities, and inevitably there will be, will be immediately submitted to the CE for action and follow-up, and the Board for acknowledgement.



## ***Feedback and Communications***

What is the current status? Has it exceeded the standards and targets set by the Board? And if it has deviated by say 5 to 10% off the target, what remedial actions are taken, or none at all? If staff are randomly picked and asked about the agency's key service deliverables, are they able to brief the assessor concisely, pointing to the relevant items within the agency that matter most to the service recipients, stakeholders, and to the employees?

Often, factories and operation centres would post their targets and their daily variances on boards that are visible by the staff. Everyone knows exactly how far he or she is from the targets that they have to meet. This is very much managing by objectives, but not only that, management by such action will have displayed the variances and what they considered more important, and doing so in an open and transparent manner. Service pledges are often posted for the customers to see and allow customers to provide instant feedback if the service levels (as promised) are not met.

All organisations filter information. The more layers there are in the organisation structure, the more information will be filtered eventually. One role of the assessor is to identify at which level of management that this information begins to be crucially filtered out to the extent that the key decision makers have no clue what is the current status of their key service offerings.

For organisations that are relatively opaque, a good practice would suggest that a formal link be made between the Board and the service recipients. This is done by allowing customer complaints to be discussed at the boardroom, with management present with the ready answers, or conducting independent customer satisfaction reviews.

## ***Systems Linkages***

For this system to work, it must be intricately linked with some of these management systems:

- Performance management and measurement;
- General staff supervision;
- Transparency and accountability;
- Managing stakeholders' and public's expectations;

- Strategy formulation;
- Financial and funding management;
- Policy structure improvement in which a quality policy should exist;
- Marketing services; and
- Service quality.

The discussion on exception reporting links well particularly with the process of developing the performance management and measurement indicators. Variance reporting, a form of exception reporting, is often used in management cost accounting and is linked to the systems discussed in this good practice guide. EIS, and to a lesser degree, MIS, provide the data and decision support for management to understand how best to manage repeating patterns, thereby signalling deviations and variations from quality standards.

## ***Recommended Steps for Closing the Gaps***

Every organisation needs to be monitored. How customers are served, how processes are being carried out, and how standards are being met, are always monitored for effectiveness. It is important therefore that agency must work hard to develop firstly the monitoring and information system and strengthen that with the appropriate processes. In order to improve upon the current system, business focus (agency's mission) is determined first, followed by the modification of business processes, then a consideration of the new and existing technology that would need to be introduced. The information and reporting system would flow out from this. The key phases at this stage would be:

1. Conduct a review of the IT projects currently in place and assess how well they have been able to provide decision making support. It may be necessary to prioritise them based on the new business requirements as some of the core and value-added business processes would be reengineered, and this would be done with a consideration where IT can be made to support and handle large volume of transactions.
2. The next detailed phase is to clarify the IT requirements for each viable option. This will include the needs for these steps:
  - Clarify possible long-term and short-term IT integration strategy and tactical plan for the organisation;
  - Evaluate the current IT usage;



- Research on appropriate business and technical framework to support future IT expansion;
  - Study the current IT activities to recommend efficient ways to execute and combine projects to minimise IT costs and resources for best performance;
  - Review the key administrative workflow to streamline, with a view of automating the operation and minimising human intervention and paper work.
3. The new IT and IS systems would need to be integrated and support the new business processes.
  4. This system, since its impact can be so large and be applicable over a longer period of duration (for at least 3 years), must be approved by the Board of Directors. The Board would need to confirm the blueprint and pace of change for the business processes and IT integration. A decision has to be made as to which option(s) is considered the most practical and sensible for the Board.
  5. The next step is to validate the working system of variances and exception reporting. Management collect and improve upon the current system of such reports, redesigning new and improved visuals as recommended in this guide.
  6. During the implementation stage, management's strategy would be to launch a change management initiative so as to remind themselves and everyone involved that a new order is in place, and that by introducing this new order, the old order and way of working is no longer acceptable. Management and those reporting to management must believe and use exception reporting. The key principles of change management are: involvement, communication, and acceptance.
  7. The next phase, the design of the human computer interface, collects deliverables from the earlier steps and gives the users a set of technical alternatives of the human computer interfaces or how the existing staff would handle and work with this system. A decision is made to go batch or online, to run on personal computer, minicomputer or mainframe, basically, helping the users to identify how they would like to work with this new information system. It looks at what inputs and outputs are needed. Once the human-computer interface is defined and selected, the technical requirements phase, which is the last phase, is then developed.
  8. When the system of paper reports has been tested for about 6 months, IT consultants should be brought in to develop the systems specifications for

the EIS with the users. Now is the time to identify the computer hardware and software architecture needed by the management and governance teams for self-governance. The new EIS would need to be linked with the agency's CRM system (see Good Practices in Marketing Social Services).

9. The systems design team would need to work with the Directors and produce a prototype in order that the Directors may actually see what they want before the agency launches into a massive campaign to install a system which few would use.
10. The next stage of development would be the detailed specifications of the user-interface such as computer screen, hard-drive specifications, etc. that would be needed to identify the information system. A design specification is produced at this stage for a prototype. Users are shown what the system may look like through this prototype and a rapid-development systems process should be used.

Implementation typically would take the majority of the efforts in the setup of an exception reporting computerised system. Identifying the specifications for the system is the easiest part. The most difficult parts would include understanding how users would come to use the new system in decision making and integrate their style with the new system. There is no easy answer and the only way is to let users determine how best to work with this system through patterns that are formed naturally. Once these patterns have settled into equilibrium and operate stably, the next set of efforts would then involve the identification of the systems specification that would reinforce and enhance how users have worked under the new prototype.



# **Good Practices in Performance Management and Measurement System**

## ***Definitions***

This refers to how performance of management is managed, encouraged, designed, tracked, and linked with remuneration and reward. There are three levels of performance for the agency - organisation or agency-wide, departmental, and individual; and the issues of performance indicators are crucial to the integrity of all three levels. Performance measurement is the heart and soul of a well structured performance management system. How performance is set, monitored, measured, and assessed in the form of indicators for the overall agency will be covered more explicitly here.

How performance is set, appraised, remedied, and rewarded for the individual would be covered under the general staff supervision system.

## ***Purpose and Implication of the System***

To be self-accountable, the Board of Directors of each agency must develop and monitor its own set of performance measures. Traditional financial and input control-type indicators are no longer valid and applicable under LSG. Traditional ones tended to be historical, lacked predictive power, rewarded the wrong behaviours, not performance driven, focused on functions and not cross-functional processes within an agency, and gave inadequate considerations to learning and innovation. Each agency must now learn to develop and operate its own set under LSG.

Each agency must develop its own set of core performance indicators that incorporate both performance enhancement and control-related activities. The broad measurements must be more than just financial ones, and should take account of the latest best practice in developing a scorecard for each agency that is more comprehensive and applicable.

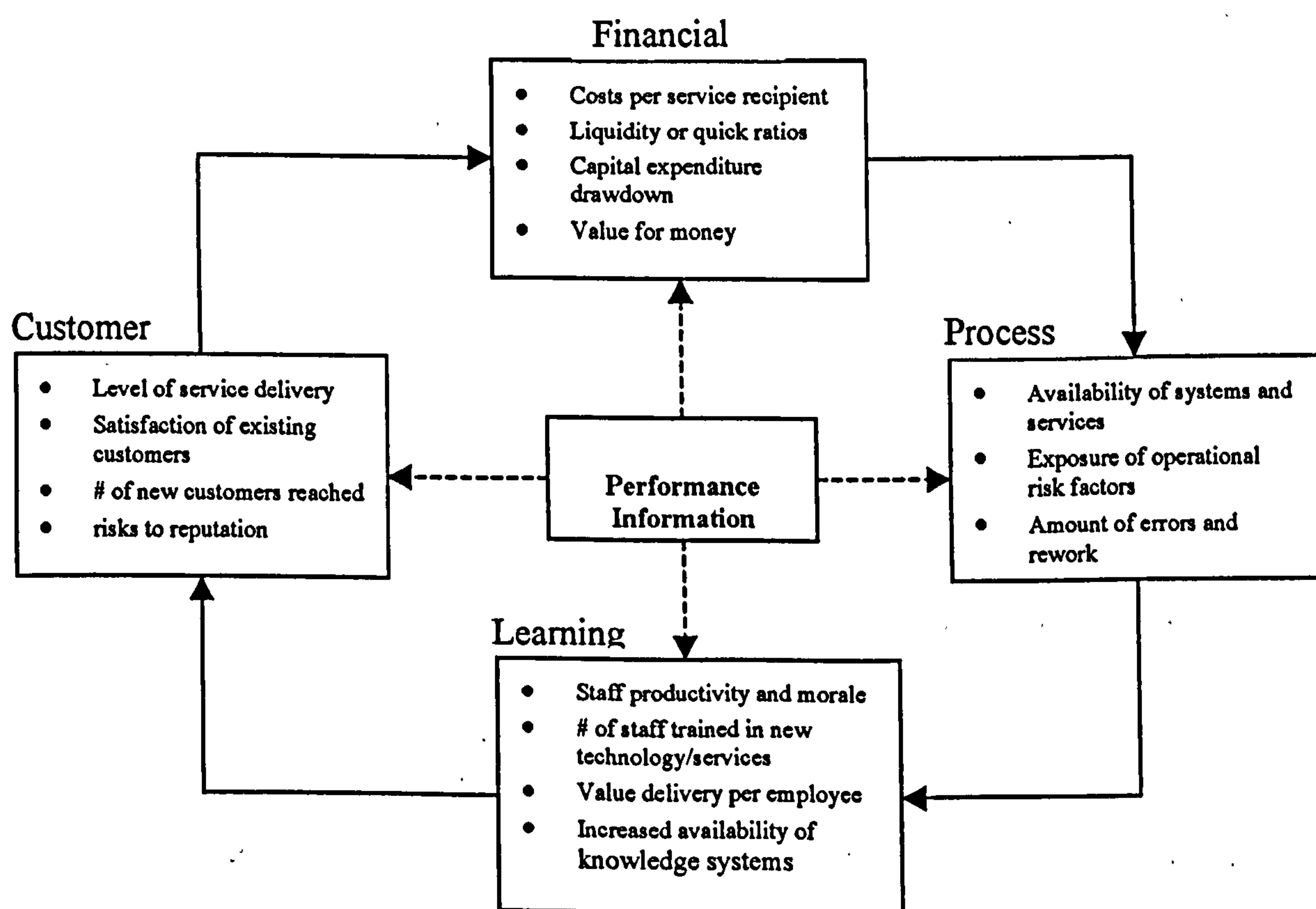
## ***System Features***

At the macro level, the system of performance measurement should be linked. Current good practices suggest the use of a Balanced Scorecard approach in linking

the performance measurements. According to Robert Kaplan and David Norton<sup>5</sup>, the Balanced Scorecard covers four aspects of an organisation's performance, namely:

- Customer goals, thereby customer satisfaction measures;
- Financial goals, and thereby financial measures;
- Process goals, and thereby process measures; and
- Learning goals, and knowledge management and training measures.

The Balanced Scorecard systems should be developed by the CE with or without the aid of management consultants, and then presented to the Board during the offsite meeting. The consulting team can begin this exercise by preparing a one-page causal factor diagram based around its current activities, output, and expected outcome. An example of a Balanced Scorecard is shown below:



The four types of performance measures shown are financial, customer, learning, and process related; and in these areas one can put in place risk control and analysis alongside opportunity and performance metrics. Indeed, there may be additional areas, such as succession planning and other management systems that can be integrated into a Balanced Scorecard uniquely designed for the agency.

<sup>5</sup> Robert S. Kaplan & David P. Norton, "The Balanced Scorecard - Measures that Drive Performance", Harvard Business Review, Harvard Business School Press, 1998, pp.73-79



One of the beautiful things about the Balanced Scorecard acting as the control dimension and the performance indicators is its contribution to monitoring the impact on the overall enterprise governance system. Another is its ability to relate what's been considered by the Board to be important, to the workers, in a simple and concise diagram. And measurements form the central foundation for such efforts. The best Balanced Scorecard without an adequate and concerted review of the performance and control measurements is not a scorecard at all.

It is important to take a regular review of the performance and conformance measurements and its relevance. Measuring the wrong things is a complete waste of resources. Moreover, the measurement process should gain commitment from everyone and it should be consistent and acceptable by those involved. Results of the measurements should be shown to everyone. The team should make use of the results and look to the future and predict trends that they could take action earlier. In reviewing the integrity of the system and the process, the assessment team could ask the following questions:

1. What is the agency's current performance?
2. How does actual performance compare with the target set?
3. What are the main reasons why the target isn't met?
4. What is the plan for corrective action?
5. Has the action been taken?
6. Does the action have the desired impact on the results of the measures?<sup>6</sup>

## ***Accountability***

There are basically three levels of accountability. The first and highest level is to ensure that the NGO has effective and sound performance measurements, and this belongs to the Board. The second level is to ensure that the performance measurements make sense and are what they appear to be. This is an integrity issue and this role belongs to the Chief Executive. Assisting the CE could be the Financial Controller, Service Centre Heads, and others such as the auditors who would confirm and report on the system of measurements. The third level belongs to the operations people who must report, measure, track, and manage the deviations.

### **Who measures it?**

At a working level, the set of accountability can be much more specific. Typically for a small NGO with a high level of trust and minimal hand-offs between

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<sup>6</sup> M. Bourne & P. Bourne, "Understanding the Balanced Scorecard", Institute of Management, 1992



departments, it is not a matter of concern who measures the indicators. It is expected that each department undertakes its own measurement. When a measure begins to overlap into many departments, then it may be necessary to put more emphasis on proper reporting and continual assessments of the results. It is often difficult for those involved with the statistics not to tamper with them, such that bad news are minimised and only good news are highlighted. To prevent this potential conflict of interest, it is best that those who measure and report it are not the same individuals as those who would audit on the results. If the measurement and reporting processes are done by the same individual, then the agency simply appoint another person to verify the information collected from time to time.

Whenever the measures become core measurements or that which would have major impact on the agency, it is a good practice to put additional emphasis on the collection and independent verification of the information. This has been raised in the earlier section. Whenever possible the data should be self-generated by computers and recorded as this eliminates unnecessary input error and subsequent checking. When this is not possible, large organisations may want to consider setting up an audit team whose roles are to ensure the individuals involved are measuring the right things, that proper audit points are in place, that the results can be replicated, and that remedial actions are followed when results deviate from the norm.

The source of service statistics or data identifies the originator of the data, additional processing that is done on the data before they are reported, and points to any irregularities where the source are not clearly evident. Typically, the user or assessor should have a good feel of who would be responsible for the source of the data. Weak sources are those that cannot be verified or where the reporter of that source does not have any obligation to report the data. When the source is unreliable or where the capturing of such information is only on hearsay or based on the whim of the reporter, then there is a cause for concern. The audit team should quickly strengthen the indicator by increasing the number of sources. Confidence in the indicator will quickly go if this is not dealt with immediately. In essence, good practice suggests the following reminders:

- Can management rely on the data source?
- If the main source is unreliable, what other sources can be depended on and included in the indicator?
- Is there an incentive for the reporter to adjust his statistics, if so, how can that incentive be put in check?
- Are the reporters the same individuals as the quality assurance team?

Who acts on the data and what can be done should service fall below standard?  
When results deviate from expectation, someone should immediately act upon it



to resolve the situation. When no action is expected if a bad result is reported, then this is a cause for concern. When the wrong level of individual is involved in tackling the issue, we have another cause for concern. If the matter is not dealt with within a month, the department head should be held accountable. If the situation is not resolved within three months, the CE should be held accountable. If the situation is still unresolved within a year, the Board will have to bear all responsibilities.

The team responding to the action would be users of the information. Typically, when nothing can be done should the results deviate from the standard, one must re-evaluate the need for that particular indicator to be a core indicator for the agency as it would be apparent that nothing within the agency's authority could affect or curtail bad results. In such a case, these indicators should be called reference indicators and not core indicators. In essence, good practice suggests the following reminders:

- Who, by name or position, is actually responsible for ensuring that performance as identified in that indicator does improve?
- Who are the owners of the service process?
- Who upon seeing the report, act upon it immediately?
- If no action is taken on a negative result, does it impact on any major goal? If not, should it be called a core indicator?

## ***System Integrity and Review***

The performance management and measurement system is working when the agency is able to measure its progress over time in terms of its key performance. If the agency is not able to ascertain how well it has done, then the system is not working. The balanced scorecard can have a number of core components, and need not just have four. The aim is on simplicity, focus, and communication. An effective and properly set up balanced scorecard is one that can explain to the Board the key services on one page of report.

At the micro level and fundamental to an effective performance management system and the Balanced Scorecard system is the proper setting of performance indicators. To properly identify and assess or for that matter design new indicators, the assessor would first need to keep the following guidelines of good practices for indicators in mind.

- Defining what they are
- Type of indicator and their targets and standards
- Knowing what they do or (the purpose)
- How it is designed (formula and assumptions)

## **General Definition of Indicators**

Given there are many individual in any one organisation, a common understanding and acceptance of the definition for any indicator must be paramount. Slight variations do occur over time however and definitions should be updated once in a while, but rarely once a year.

Effective indicators have definitions that are understood, if not initially accepted, by all those who are directly involved in meeting that standard, i.e., who are directly responsible for meeting that standard, investigating and auditing that standard, and using information derived from that standard. The definitions are posted and all assumptions are identified to discourage any hint of non-compliance. When this is not true, this is indeed a cause for concern. Everyone must quickly come to agree on a set of definitions with which to work. All indicators are meaningful only within the context with which they exist. The boundaries should be defined, if not indicated in the definition, and should be clearly stated in the assumptions. Secondly, the definition should closely match the title for that indicator. This is to minimise misinterpretation. In essence, good practice suggests the following reminders:

- What should the measure be called?
- Does the title explain what the measure is?
- Is there a standard definition that everyone uses as reference?
- That any change in definition has been made known to all parties involved?
- Does it explain why the measure is important?
- Is it a title that everyone will understand?

## **Type of Indicator**

Indicators can be categorised by type and by level. Generally speaking, the higher the level of the indicator, the more they are governance indicators than performance indicators. The lower the level is, the more they are operation-driven and in fact would be individually based. Firstly, there are four types of indicators - input, process, output, and outcome- based. Increasingly, NGOs are asked to consider more output and outcome-based indicators; and with LSG, NGOs will be moving away from input indicators as they would be in control of their own input. FSA focuses on output and outcome indicators.

The higher the level of the indicators, the more they tend to be outcome- based. Not all indicators should be outcome-based and sometimes the outcome is outside the direct influence of the organisation. Outcome-based indicators are the "best", is a misconception. Indicators are developed to meet a certain purpose and each



process-type indicator serves its own purpose. Typically, outcome-based indicators are affected by the performance of more than one department, one unit, one agency or NGO.

Once the level or the type of process has been defined, there exist many ways of further categorising indicators and we have found the following breakdown easy to understand and administer. All of them can be target-based, or how the performance has met any target. Essentially, there are several types of indicators and each type has its own requirements for setting targets:

- Accuracy or how many errors;
- Timeliness or how long does it take;
- Responsiveness or how quickly some action is taken within a 24-hour period;
- Perception based or how well that perception has been managed within the agency.

### **Purpose of the Indicator**

As mentioned previously, all indicators regardless of the level of process or type must exist for a purpose. As the goals or purposes of the agency change, new indicators are developed and old ones dropped. There is no magical rule to say that any particular indicator needs to exist indefinitely or that it would be dropped when it no longer can reflect to management what it wants to know. As discussed earlier, management must decide which indicators to use, which are to be called "core", and which to link from one level to another.

Core indicators for the agency should link to its Business Plan, and that, to the agency's Annual Plan, which links to its mission and vision. For large organisations, the purpose of any set of indicators must be well accepted and agreed by the users of the indicators. Also, the producer and auditor of the indicators (to be explained further below) need to understand fully the purpose and report any deviation to the users.

There is a tendency in all organisations to compare results, sometimes with the previous periods or with similar organisations. A potential danger with this is that those reporting the information also have this expectation, and for fear of under-performing, sometimes will report only positive results or stretches the assumptions to exclude one-off situations, which are rare but important. This comes back to the purpose of the indicator. Should one of the purposes be to inform management of current status, good or bad, then the current indicators must be robust and "dummy" proofed. In essence, good practice suggests the following reminders:

- Why is the measure being introduced?

- What is the aim of the measure?
- Should it be a "core" indicator?
- How is it linked to Business Plan or to the agency's Business/Annual Plan?
- What behaviours should the measure encourage?

## **Target/Standard**

All indicators must have a target, whether it is a working target or a standard, which the agency must abide to. When there is no target, it is a cause for concern particularly when even the Government is advocating target-based management. One way forward for most organisations without targets for indicators is to first employ process-driven or in-house targets, which the parties can achieve at the outset. The second stage is to set the target or standard based on the expectations of the users or ultimate stakeholders. This is ideal but not a must. Good practices suggest the organisation should achieve to link the expectations of the stakeholders with the internal processes of the organisation and the point of agreement is in fact the target.

In keeping with expectations that are forever rising and in keeping with productivity that needs to improve over time, this target is then tightened over time. Typically, variation in performance will follow the normal distribution. Any deviation from this is immediately reported and highlighted to management. A target should be a stretch, and not which can be met 100% of the time. If, over a period achieving the target is close to automatic, then either the target needs to be tightened or the indicator should be reconsidered. This is in keeping with the continuous principle of total quality management, which the agency is currently pursuing. In essence, good practice suggests the following reminders:

- What level of performance is desirable?
- Does the indicator have a target? And is everyone involved aware of that target?
- How long will it take to reach the targeted level of performance?
- How does this level of performance compare with other organisations?
- What impact would it have on expectations should the target be compared with similar services, bearing in mind for example that crime rate statistics are not entirely comparable across regions or areas?

## **How is it designed? Clarifying Formula and Assumptions**

All measures have a formula and the formula indicates how things are counted,



reported, and how the results are calculated. As processes do change over time, the formula associated with the measure would inevitably change. New formulas are immediately put in place to replace the old ones to better reflect the reality of the situation. Ideally, the assessor should incorporate a regular audit on indicator's integrity and this should be done once every two years (or more often depending on the rate of change impacting on that particular measure) to prevent any problems from building up. The formula is actually the definition in practical terms and many contain a start and end point, whereby each of the points can be audited and verified. When the formula cannot be identified, or where interpretation differs from one division to the next, there is a cause to be concerned.

Reference statistics should be provided in terms of the range, average, and standard deviations. This will give the reader an assessment of the relative magnitude of the results. In essence, good practice suggests the following reminders:

- o How can this dimension of performance be measured?
- o Can the formula be defined in mathematical terms?
- o Is the formula clear?
- o Does the formula explain exactly what data are required?
- o What behaviour will the formula induce?
- o Is there any other behaviour that the formula should induce?
- o Is the scale being used appropriate?
- o How accurate will the data generated be?
- o Are the data accurate enough?
- o If an average result is provided, how does that lessen the impact of the results?
- o Is the loss of interpretation acceptable?
- o Would it be better to measure the spread of performance?

## **Assumptions**

No indicator can be all-inclusive. For reasons of practicality, many indicators do not measure items that are rare in occurrence. This makes sense as long as everyone knows what these assumptions are, given that the underlying process may change over time as discussed in the previous section. Knowing the range and extent of assumptions for a particular indicator provides the user with a much broader understanding of what the indicators can measure and how it can work for the user. Assumptions exist, and often they are not communicated to those who need them. As the strength of a chain is limited by its weakest link, so too the strength of a measure is indeed limited by the extent of its assumptions.

When no one is certain what the assumptions are or when there are so many assumptions, there is indeed a cause for concern. Assumptions should be clearly identified and itemised. Over time, it is good practice to eliminate as many assumptions as possible. This encourages the indicator to reflect as much as possible the real situation, which the indicator is measuring. In essence, good practice suggests the following reminders:

- Under what context would this indicator not apply?
- Does everyone involved know what these assumptions are?
- How can these assumptions be eliminated or reduced to better reflect reality?
- Are the assumptions so strong that they can easily render the indicator useless?

## ***Feedback and Communications***

There is no hard and fast rule on how often an indicator should be measured and how often it should be reported. Preferably the more important the measurement or the more there is the need to know an operational status, the more frequently it should be measured and hence reported. Ideally, such important measures would be compiled and reported automatically by an infrastructure already in place, say the current computer system.

For senior management, good practices suggest that core indicators should be reported at least once a month, preferably once every week if possible. Effective indicators are those that can quickly and accurately reflect to management what the current status is. Sometimes these are reported daily even. Less important ones can be updated once every quarter.

In general, there is no absolute rule on the frequency of measurement and reporting. This decision is based on how often the users need to know, how much do the results change over the reporting duration, and the value the additional information would bring weighted against the extra effort to bring about that information. When a department sets aside extra effort to create statistics for statistic sake, this is a cause for concern. Indicators exist to assist management, not to hold management as hostage. In essence, good practice suggests the following reminders:

- How often should this measure be made?
- How often should this measure be reported?
- Would a more frequent measurement or reporting interval bring sufficient information for the user to make a decision?



- ☐ How much do the results change over the reporting duration? If no changes are expected, can the reporting interval be reduced?
- ☐ How much value is there in knowing more frequently, versus how much effort will have to be put in to bring about that information?

## ***Systems Linkages***

For this system to work, it must be intricately linked with some of these management systems:

- ☐ Managing stakeholders' and public's expectations;
- ☐ Strategy formulation;
- ☐ Policy structure improvement in which a quality policy should exist;
- ☐ Marketing services;
- ☐ Monitoring and information management;
- ☐ Change management; and
- ☐ Service quality.

The one system that is key is the strategy formulation system, because from the strategy the agency will be able to develop a set of critical success factors or CSFs. These CSFs would form the basis of the definition and boundaries of the performance indicator set. Management may not need to stop here. The next step is to decide how to operationalise these CSFs by setting critical control components or parameters or CCCs. This can be done by:

- ☐ Taking each CSF, develop the critical control components (CCC) that management would have to put in place, for monitoring and for control. The spirit should be minimal control. CCCs can be either performance or conformance indicators.
- ☐ Note the consequences of a loss of control for each; and if possible, the actions by management needed that would bring the system back into balance.

Once the indicators have been defined, management will need to link these with the surveying and reporting system.

## ***Recommended Steps for Closing the Gaps***

Every organisation needs to be measured, for what is properly measured, can be properly managed. It is important therefore that agency must work hard to develop firstly the core set of indicators that are outcome or output-based. All indicators can be enhanced. For example, virtually all processes within an organisation can be reduced or be eliminated as the processes are revised. This fact leads to the assertion that all process-based indicators can be modified to reflect the changing processes.

In order to improve upon the current performance monitoring and management system, the following steps are suggested:

1. Identify no more than 20 key success factors for the agency, taken from each agency's critical success factors or CSFs;
2. Determine whether this new set corresponds to the existing set of management measurement, modifying the current set and introducing new set as needed;
3. Determine the definitions, assumptions, formula, and scope for each of these indicators;
4. Identify how the indicators would be tracked and the reporting infrastructure and timing needed;
5. Create a sample reporting schedule and remedial action worksheet;
6. Begin to collect data and test the robustness of this management measurement;
7. Test run for three months by collecting statistics, revise and improve on the setup of the indicators based on the suggestions in this good practice guide;
8. Set standard levels based on current operating variance; and report any deviation that is more than 5% from standard;
9. Begin to collect the variance information from the core handful indicators; and submit the information to the CE and the Board; and
10. Determine which indicator to drop from the core, or which to expand into more detail.



# **Good Practices in Service Quality Management System**

## ***Definitions***

This system deals with the ability of the agency to meet quality systems and processes such as the requirements specified by service recipients and having the systems and processes to understand their changing needs and being able to deliver to meet those needs at a high standard. The viability of the Service Performance Monitoring System (SPMS) is included here.

## ***Purpose and Implication of the System***

Service delivery should be an integral part of the planning process of any organisation that is truly concerned about delivering quality service to its clientele. It exists as a key element in the rolling three year planning process under which it is subject to annual analysis and review. Indeed, the long-term financial performance and, ultimately, the survival of the organisation depends upon continuing customer satisfaction.

Aiming to raise the service quality and efficiency of NGOs, the Social Welfare Department (SWD) introduced the Lump Sum Grant (LSG) Scheme along with the Service Performance Monitoring System (SPMS) to the NGO sector in 1999. The SPMS contains four components, the Funding Service Agreement (FSA), the Essential Service Requirement (ESR), and the Service Quality Standard (SQS), and Service Performance Assessment (SPA).

Under LSG arrangement, subvented organisations would be granted subvention only once per year and only if they have fulfilled the FSA requirement as specified under each agency's SPMS. The FSA is a set of output standards that is required to be achieved by a subvented service. It is an agreement set between the subvented organisation and the Social Welfare Department. The results of these output standards have to be submitted to the Social Welfare Department at regular intervals.

Besides fulfilling the FSA, the organisation has to fulfil the ESR. The ESR are basic regulatory and administrative requirements, such as the required working hour or parties to be employed for a particular service.

The SQS is composed of 16 service quality standards and has helped to build the skeleton for a better management system for NGOs. Each subvented organisation is obliged to meet and exceed the 16 standards which were set based on the agency's ability to perform, not on the requirements as specified by the service recipients.

Finally, the SPA is composed of a review process, including audit visit and on-site assessment. Agencies are encouraged to conduct self-audit and the SWD would reserve the final authority to conduct the independent audit.

## ***System Features***

What is included in a system for service quality management? What are some basic features of this system that is fundamental to service quality and also to the SWD requirements? And how does improving a focus towards customers and quality would raise the ability of the agency to deliver on its mission?

First of all, as the agencies followed the SPMS, they are in fact undertaking and operating only the first part of the total quality management (TQM) system. TQM involves much more than delivering on agreed outputs such as meeting the FSA. TQM focuses on continually exceeding them so that the agency can compete with its closest rivals. It is much more than conducting a self-audit and installing a system for monitoring service levels. TQM looks at containing costs and improving service through self-assurance by each individual. TQM is about a complete cultural mindset shift towards one of quality and focus on customers' needs. Moving towards a system of service quality means accepting the FSA, and introducing additional TQM guidelines and practices.

Underpinning TQM are some of these guidelines and practices:

- ❑ Identifying customer's changing expectations and managing these expectations along the way. For the agencies, this may mean continual and novel ways of collecting feedback.
- ❑ Setting standards which are reflective of the needs of the users and not on the present delivery capability of the agency. It is much more customer focused.
- ❑ Identifying the standards which are expected by the service recipients and tightening these standards over time. Inevitably, a compromise has to be made on how best to allocate resources for raising key services while simply maintaining others. The agency has to decide on what are the key services that it must deliver better than anyone else.



- ❑ Simplifying the customer support process. For example, reducing the number of hand-offs, particularly for customer enquiries.
- ❑ Focusing on the 'moment of truth' or when the customer is being served. This means providing more flexibility and responsibility to the front line, allowing the front-line individuals to be empowered to perform additional tasks as they see fit. For the agencies, this means paying more attention to all the contact points (visible and verbal) where dealings with customers would take place.
- ❑ Eliminating avoidable inputs, like putting guidelines to avoid clients from asking the same questions twice or performing insufficient level of service such that it would automatically lead to the customers asking for more support in a subsequent visit. The focus is on solving the problem for the customers quickly and efficiently.
- ❑ Allowing the staff to make mistakes and putting in the mechanisms for service recovery. Service recovery is a vital support system and kicks in automatically after a service has gone bad.
- ❑ Installing a quality assurance process and guidelines where cases erroneously made are instantly brought to the attention of senior management. Often a majority of the complaint cases that become crises could have been better managed at the embryonic stages.
- ❑ Providing more customer services training to the general staff, beginning with a training needs assessment exercise.
- ❑ Focusing on providing the front line workers with more tools and support such that their interactions with the service recipients can be more genuine and more in-depth. Removing as much as possible bureaucracy and red tape from the process such that the majority of the time spent at work is to serve the customers, not filling out reports.

The above serves as a simple reference list of some of the main features in this system. Higher customer satisfaction, lower support costs as rework and non-value added activities is kept to a minimum, and job satisfaction are the outcome of TQM and over time are probably the only proofs needed by the agency. The SQS has already introduced some fundamental requirement for management system, such as improvements and additional reporting in financial management, staff training, performance appraisal for staff, and feedback from customers. But this does not go far enough as the ultimate goal is not to impose additional reporting and tracking requirements, but to raise customer and staff satisfaction. The aim of TQM is to raise quality and the aim of raising quality is to improve the agency's sustainability and increase surplus.

Quality is about delivering to the requirements, however high or low, as specified or expected by the service recipients. Responsiveness, service recovery efforts, customer education, front-line support, customer interactions, point of contacts,

complaints and complaint handling systems, service branding, preventive maintenance are essentially all the key quality elements and features which have provided superior service levels in NGOs and all should be assessed from the perspective of the final user and service recipients. This stage may include surveys, focus groups, and mystery shopping.

Moving towards a system of TQM involves five main stages and each has a series of steps. They are:

1. Investigation
2. Initial planning
3. Identifying and measuring
4. Involvement
5. Improving skills

For investigation, the key step is identifying your customers' requirements and this can be done in a number of different ways. You can use surveys such as mail surveys, personal interviews, telephone surveys, panel surveys or focus groups, handout and electronic surveys. The technique or techniques that the change champion uses will depend upon your circumstances and what the change champion wish to achieve.

The factors that will affect your choice are:

- ☐ the level of accuracy (or confidence) that the change champion would need;
- ☐ the level of detail the change champion are looking for;
- ☐ your sample size which has a more direct correlation to your costs; and
- ☐ the time that the change champion can afford to spend on sourcing, collecting, analysing, interpreting and presenting your findings.

Before planning can properly begin, one must assess the current agency. Assessing your organisation's capability to respond to your customers' needs is most often done initially in a workshop for your top management team. These workshops can be repeated at steadily lower levels in the enterprise as the focus is narrowed. It helps by asking a series of questions about the organisation:

- ☐ Are our strategies developed such that they will help deliver what the customer wants?
- ☐ Do we have the right staff in the right places?
- ☐ Do our staff have the right skills?



- ❑ Do our managers have the right style of managing to deliver what the customer wants?
- ❑ Do we have the kind of organisation structure that will enable us to respond quickly to the customers' needs?
- ❑ Do our systems and procedures help us to meet customer needs or do they slow us down?
- ❑ Are our shared values, our culture, such as to help or hinder us in delivering Total Quality?

A central part about the planning process is linking the agency's mission with quality. A mission for an organisation is a statement on its reason for existing — a summary of its beliefs and aims. Top management must agree a mission that is focused on quality, about its commitment to meeting customer needs. This serves to demonstrate to customers and employees alike that the organisation is committed to quality.

Next, key service deliverables have to be identified and ideally these would be the same as those specified under the FSA. That is, the elements within the service — the product package is the most important factor from the customer's viewpoint. Strategic level action is necessary to meet these key deliverables and has to be initiated by your senior managers within their own functions.

Once the change champion has standards set at each point in the process chain, the change champion can measure performance and give feedback on performance. Standards are vital. Action at the third stage is all at the macro level. The next stage starts to move things down to the micro level. That is, from departments and sections down to groups and individuals.

## ***Accountability***

Although there is a general assumption that everyone should be held accountable for delivering good quality service to the service recipients, in reality, this is difficult to put in place. Running a new TQM system for an organisation is not an easy task; and particularly when duties and roles are not clearly defined. No matter how fit and how good a system is, if there is no clear accountability, the system doesn't work.

Who should be responsible for implementing this new system? What about managing service quality in a subvented organisation, who should be the ultimate party to be responsible for managing the current SPMS system? Should it be the

chief executive? the Board? or management? Should there be more than one party? Who should assist the responsible party to manage the system? What about an internal audit party?

Firstly, everyone in the organisation should be cognizant of the agency's expected level of quality. This is a mindset and a culture that needs to be introduced (if it is not already there), reinforced through training and everyday action, and led by the change champions (please see the component on change management for more information). In all job descriptions (JD), there is a clause in each JD to bring about an improved level of satisfaction for the service recipients.

New staff are immediately taught what quality is and how the agency supports this concept. Excellent services are exemplified and rewarded (both financially and through recognition) by the department heads and the Chief Executive. Above all, the Board of Directors talks about ways to improve quality in all their meetings and is mindful of 'repeatable' customers' complaints because this is representative of a fault of the system. The CE is held accountable for delivering to the quality standards, or in other words, delivering the FSA and more; while the Board is held accountable for bringing about a continual level of higher satisfaction and higher standards of quality.

*Generally, service performance is monitored and reported through the line management hierarchy to the Chief Executive and the Board and formally reviewed each month. The responsibility for the meeting of performance standards remains the ultimate responsibility of the Board through the Chief Executive and the senior management team. Sometimes, internal quality assurance unit or internal auditor is used to check the integrity of the measurements.*

Good practices in NGO would suggest that the leading organisations would appoint a quality director to drive the initiative. This places TQM as a top concern. They make one individual the 'champion' with overall responsibility for making it happen. This has to be a top level manager and he/she must report to the managing director. The level of the individual appointed to this role will demonstrate how committed the organisation *really* is to delivering quality and how successful TQM will be.

## ***System Integrity and Review***

How does the Board, the CE, department heads, or the service providers know that



the system is working or not? What about the situation when all the SWD requirements have been met but the agency continues to draw fewer and fewer service recipients? What happens when the FSA requirements are delivered, when the SQS checklist is all filled, and all reports are promptly sent to the SWD, but customer satisfaction continues to plummet?

This is where the identifying and measuring system is vitally important. What gets measured gets managed is the old adage! The system is working when and only when the level of customer satisfaction is on the upswing, and that these satisfaction levels are linked with the agency's core business. New behaviours are not brought about by training alone. You need to support and reinforce those behaviours back in the workplace. The two most effective ways of doing this are the appraisal and reward systems. Experience in many organisations has shown that 'the change champion gets the behaviour he rewards'. is, set objectives for individuals in quality terms and base your reward system on achievement of the objectives. You will get rapid and significant behaviour changes!

One of the most effective means of ensuring that the organisation's efforts are focused on the delivery of quality service is to incorporate service quality targets in the Strategic Plan. They are then cascaded down through the organisation and incorporated in individual plans. They become part of the organisation's performance management system placing emphasis on the need to meet client needs and expectations.

Therefore, the following are signs to indicate that the system is not working:

- ☐ No service targets or standards;
- ☐ No remedial actions taken when the standards are not met;
- ☐ The same standards have existed for at least 5 years although the industry and market has moved on;
- ☐ Everyone is held accountable for delivering higher quality but no one is reprimanded for not making the quality requirements;
- ☐ Quality is not seen as a high priority;
- ☐ The mission statement is not reflective of attempting to achieve or fulfil a future need of the customers but the needs of the agency;
- ☐ The Board has no idea what are the major service complaints for the month; or
- ☐ There is no survey to gauge the changing needs and expectations of the service recipients. They have no formal or systematic way of informing the agency what or how best to improve. Feedback from customers should be treated as a valuable commodity; to be discussed and shared by all staff.



For TQM to work properly, the CE would have to build in the idea of continuous improvement. This must be tackled at senior levels in the organisation. He may have to run regular workshops on quality with senior managers. These will help to maintain the impetus of the initiative by helping to vision, plan and co-ordinate the step-by-step action needed to ensure continuous improvement.

## ***Feedback & Communications***

The sections above remind us of system integrity; to ensure that we are updated with the organisation's 'true' service status. But how often should we be reminded of these facts or as in the case of using exceptional reporting, of the variances? Should the SPMS results be communicated to other staff, so they know how well they are performing? Service users' feedback is always valuable for the organisation. What is the best feedback channel for the organisation? Surprise site visits by Board members? Independent customer satisfaction surveys and report from senior management? Should we be constantly looking at the rear-view mirror (past indicators) while we are driving forward towards higher levels of service?

The above questions are certainly good ways to help understand the feedback system. Let's attempt to answer them one at a time as that would help the assessor structure a system for review.

Firstly, how much feedback is enough? The answer is it depends on the level of variance. If the service level is constantly not being met, then more frequent reporting and tracking is necessary. In other words, only variances should be reported. Large and repeating variances should automatically signal a need for review by senior management. Small variances would be the responsibilities of the department head, service centres, or process owners.

On the question of frequency, the feedback system should focus on providing frequent feedback on key service items. That is, every agency has key services that are promoted, delivered, and regulated. The more they are special and unique to the agency, the more often they should be reported. Some agencies should have weekly reports on service items that they have considered to be unique and which would represent the gist of their mission. Tracking the organisation's performance regularly could help to identify solution for any problems before it is too late.

On the question of feedback channels, there are a number of options. Currently, there are many existing channels in which service level information is provided to



management and to the staff. The key is to rely on a few and keep all unnecessary channels to a minimum. The key is to have regular ones that can help management identify patterns. Sometimes the best channels are free, and need not be any of these although individually they are quite useful as well. The best channel is being able to listen attentively and directly to the needs of the users.

The second best feedback channel is receiving insights and direct information from the front-line service providers, or from the staff who deals directly with the customers. They are in constant contact with the service recipients and management should make every effort to involve these workers, coaching them to develop their own solutions. Often used and quite successful is Quality Circles, whereby each week the front-line workers would sit and discuss ways to eliminate 'avoidable inputs', or inputs that can be avoided thereby lessening administrative work which are necessary but may not be valued added. To understand the service users' need and how to increase service quality, the front-line staff could probably provide the best and the most immediate answer.

Under LSG, the staff are already filled with administrative tasks to undertake FSA requirements. The FSA assessment report is required to be submitted monthly, quarterly and yearly. The organisation has to report output standards such as 'the number of clinical visits', 'total number of training hours delivered to children in the month', 'number of community activities organised this year'. Any statistical variance would have to be reported in the half yearly report; followed by annual review and report, together with action plans for improvement, which are required to be implemented next year. These are important procedures no doubt but the most important and relevant with the service management system is to be able to identify variances, resolves these variances and eliminate them once and for all, and institute new policy and procedures to meet the changing needs of the users.

## ***System Linkages***

For this system to work, it must be intricately linked with some of these management systems:

- ☐ Managing stakeholders' and public's expectations;
- ☐ Strategy formulation;
- ☐ Policy structure improvement in which a quality policy should exist;
- ☐ Marketing service;
- ☐ Monitoring and information management;
- ☐ Change management; and

- Performance management system.

To improve the organisation's service quality, the SPMS result should be discussed during key Board meetings and linked up with organisational annual and strategic plan. For example, the FSA result could reflect various aspect of the current situation of the organisation's, such as its reputation, its ability on marketing activities and retaining service users; and probably, its effective use of time on each case or activity. These are areas that the organisation should look into on improving the service quality.

The result of the SPMS report reflects the organisation's status, it should not simply be submitted; it should be taken as indicators of where the organisation should go for its next stage. It is similar to a piece of puzzle that the organisation cannot miss for linking up a big picture for a brighter future. It is in this way that the system is linked intricately to the strategic formulation system. A quality strategy should be one of the strategies, and if all possible, inherent in all its service undertaking.

This system as discussed earlier underpins the current SPMS, FSA, SQS, SPA, and ESR sub-systems. Every effort must be made to ensure that these sub-systems are not neglected. For example, though the SQS might not be sufficient for testing the organisation's changing and new service quality standards, it should be reviewed and used as a discussion platform on how to upgrade and enhance each existing management system. The SQS system as designed actually helps to link the 15 management components.

For the agencies that do not have a robust service quality management system, the first action is to link this with the change management system, having a purpose for the change. Often, quality is set as the ultimate goal that the agency would change towards.

## ***Recommended Steps for Closing the Gaps***

The process of narrowing the gaps should reflect the key stages identified earlier, that is, first finding out where amongst the five stages are comparatively weak, then upgrading them. The five main stages are:

1. Investigation
2. Initial planning
3. Identifying and measuring
4. Involvement
5. Improving skills



Managing service quality successfully depends on how the mindset of quality and customer focused service has been implemented. This requires training (improving skills), support (involvement), and more importantly, a belief that higher quality would lead to higher level of customer and job satisfaction, higher revenue, and agency sustainability. The following steps are suggested:

1. Find out which of the five main stages are relatively weak;
2. Identify the customers' expected levels for the key services as offered by the agency;
3. Identify the gaps between what the customers want and what is being delivered to them;
4. Install a consider a system of regular monitoring of these key services such that any variances are immediately identified and structured for remedial action;
5. Identify the extent in which these feedback on needs, expectations are met and is regularly collected;
6. Assess how well the current service standards reflect the needs of the clientele of the organisation and put in a review process where these are modified wherever possible;
7. Install service pledges which incorporate the service standards and are available for all to see;
8. Teach staff about performance targets and performance criteria; and make sure they are clear, known to all new staff and supported by the performance management system;
9. Ensure service quality requirements and expectations are included in all job descriptions. An aim of all job holders is to sustain and improve service quality as they are being defined by the users; and
10. Begin to introduce service quality as one of the values and consider ways to raise the awareness and buy-in through the change

management processes, from the front-line to the boardroom.



# Good Practices in Managing Change

## *Definitions*

The Change Management component refers to the processes and the system in which the agency has planned and implemented major change initiatives such as a change in culture or the fundamental ways of operating. All definitions of change are problematic. This is because they assume that one can differentiate between states of change and stability. To keep things simple and practical, for the purposes of this guideline, organisational change refers to any significant, purposeful change initiated by management for which an action would fundamentally undermine the viability and the health of the NGO.

## *Working Terms*

**Vision:** The ideal view of the future of the organisation, set against an environment that has been created by the visionaries.

**Change Champion:** It is the individual who is clearly identified as the person responsible for bringing about the needed change. There is only one change champion in any organisation; but many change supporters. Large organisation typically would have one individual appointed especially for this role. Often the CE would double up as the Change Champion.

**Sense of Urgency:** The identified basis for which change is needed. The basis should be an urgent matter, and unless dealt with immediately, dramatic consequence may result from inaction. It addresses,

- ☐ Why do we need to change?
- ☐ Why does it have to be now?
- ☐ What would be the results for inaction?

**Advocate:** When someone is helping to build the case for change, he or she is acting as an advocate. When arguments for and against the change are aired, advocates look for support. Advocacy is role for soft selling. Advocates can be from outside the organisation, such as experts from SWD or even HKCSS. The key attribute of an advocate is that he or she has the trust and confidence of potential sponsors and can influence sponsors' decisions. He/she is the one:

- ☐ Who supports the Change Champion behind the scene and acts as the cheer leader.
- ☐ Who is the angel and watches out for the Change Champion.

**Sponsor:** When a person in a position of authority authorises the change and ensures that resources and responsibilities are assigned, this person is acting as a Sponsor.

**Who on the board is sponsoring the change initiative?** Individual directors on the Board of Directors in this regard would be viewed as the Sponsors. Individual directors play a crucial role - without their support and involvement there is little chance of success.

**Who will support the Change Agent indirectly?** Any person with the right amount of authority such as a manager can be a Sponsor for changes within his or her own department.

**Supportive Change Agent:** Anyone who takes on tasks related to planning, implementing and supporting the change process, particularly the Change Champion, is acting as a Change Agent. Change Agents (like Advocates) want to see the changes happen, but also know how the changes should be carried out.

- ☐ Who is on your team and will be actively working with the Change Agents to initiate and support change?
- ☐ How should the department managers or heads of the service centres support the Change Agent? The assignment of an official Change Agent does not absolve the other senior managers of the responsibility as it is most likely that leaders within the agency would be asked to assist as Change Agents. Any change will affect all departments in some way, and each senior manager will be accountable for the successful implementation of the changes within his or her own department.

## ***Purpose and Implication of the System***

The on-going management of change helps to ensure that the organisation is faced with evolution rather than revolution. It moves along a smooth path into the future as its long-term Strategic Plan is realised. This is not always possible as unexpected and unpredictable changes are always likely to impact upon the organisation. The management of change is a difficult process, made more so because it is less technical and more people related, which has often been difficult to pin down.

Furthermore, organisations are always changing, often in subtle and incremental ways. Changes can take place as a consequence of evolutionary forces or as a result of events that are generally out of the control of any managerial action. Therefore, we should confine the definition to that which has been initiated and agreed as significant and purposeful change initiated by management for which any inaction would fundamentally undermine the viability and the health of the



NGO.

When an organisation is provided with greater flexibility and an opportunity for self-governance, the process of change requires more attention. Whatever the circumstances, the effective implementation of change requires that the senior management of the organisation follow certain fundamental principles.

The effective implementation of change demands that the Change Champion, which is most likely the Chief Executive:

- ☐ Explain to the staff his or her vision of what the organisation will be like after the changes have taken place.
- ☐ Set out the steps that have to be taken to achieve the needed changes.
- ☐ Describe the benefits to the organisation and the staff of the changes.
- ☐ Outline what is expected of the staff and how they will be affected.
- ☐ Reassure the staff that they will be supported throughout the change process and that they will be consulted on the changes affecting them.
- ☐ Nominate a project manager, a Change Champion or assistant champion, who is well respected in the organisation and who will lead the change process.

### **Disengaging from the past**

In many NGOs that have been subject to change you will often hear people referring to the way that things were done in the past. Often, they will compare the present unfavourably with the past. They will talk about how better things were then.

This is usually due to the failure of the organisation to deal with some fundamental issues in managing the change process. Principles amongst these are:

- ☐ Saying goodbye to the past - mourning
- ☐ Involving and accepting the power of the group
- ☐ Recognising that organisations are complex systems
- ☐ Reinforcing new behaviours with symbols, culture and leadership actions

The need to say goodbye to the past, to mark a transition to a new state is recognised in many cultures. The ceremonies that mark the transition to

adulthood that take place in many societies are examples of this. They are just as important when organisations have to change and the people in them have to say farewell to what used to be. Rituals, ceremonies, and symbols become very important. The changes in staff uniforms or the introduction of a new logo would represent these.

## ***System Features***

There are two sets of basic features in change management. The first deals with identifying the environment or conditions outside the agency; the second deals with the appointment of Change Champions and key initiatives inside the organisation. The first set of features can be identified through a PESTEL exercise described below; while the second set of features overlaps with other sections. The second set has been expanded upon in the working definition and accountability sections.

Let's focus on the first set of features by using the PESTEL exercise. This framework for analysis helps to build understanding of the factors in the environment of the organisation that are driving change. Once these are understood, the changes needed in the service can be better identified. For example, in the past NGO was likely to have had a multi-level structure, with detailed administrative systems based on input control. Its reward system was based on length of service and the government's Master Pay Scale. Whether any change is necessary and what change is necessary within the organisation can be better understood once the nature of the competitive environment of the organisation is analysed. The letters used in the PESTEL framework stand for:

- ☐ Political factors such as efficiency savings
- ☐ Environmental factors such as clear air and virus-free living areas
- ☐ Socio-demographic factors
- ☐ Technological factors
- ☐ Economic factors
- ☐ Legal or regulatory requirements.

Political factors have a major influence on resources and do affect the flavour of donation, or theme for the month. The social welfare policies in China will have a knock-on effect on Hong Kong as a main source of population input will be immigrants from China.

Environmental factors, more and more, have become a consideration for many organisations operating in Hong Kong where clean air, water, and a good



healthcare system is not a guarantee. Similarly, a flood in China during the rainy season will inevitably have an effect on the donation pattern for the NGOs in Hong Kong as money flows northward.

Socio-demographic factors in the environment of the organisation are such things as where people live and which areas are increasing or decreasing in population. Also, the age structure and literacy levels of the population and the way in which this is changing will affect how much service will be needed by the society.

Technological factors that have to be considered are those things that impact upon the demand for the services of the agency and on the way in which those services are delivered. Some things can be done by machine much better and often cheaper, although nothing can replace human in delivering personal service on demand.

Economic factors such as the level of aggregate income of individuals and the profits of companies are obvious. The greater profit companies have, the more they will tend to donate to NGOs. However, of greater importance for the NGO are likely to be the kinds of structural changes in the economy that Hong Kong has experienced over the last fifty years. In the 1950s and 1960s the territory moved from being a seaport with a large rural hinterland to being a significant manufacturer of labour-intensive goods. In the 1990s it started the process of becoming the service centre for the distribution of goods coming out of the Pearl River Delta. What are the future economic trends and how will these impact upon the demand for the agency's services and the way in which they will need to be delivered as a consequence of these structural changes? What does this mean for the changes that will need to take place in the organisation and the way it is managed?

For the NGOs the relevance of these factors is likely to be in the creation of the new towns and the nature of the population in these. What impact has this made on the nature of the demand for services and on the type of services? What impact would changes in these factors be likely to make in the future?

Legal or regulatory factors directly impact upon NGOs and define the parameters in which an agency will operate. The SQS and SPMS are obvious examples. Many of these factors have risk exposure implications. Under the current level of social discontent and the fierce competition among local media any trivial violation of regulations is likely to induce unnecessary popularity for any agency thereby hurting its fund raising prospects.

## Measurement Systems

A critical part is establishing measurement system and this should be an integral part of the features. Before the change process begins to unfold, it should be possible for management to answer the question, "How will we know that we have been successful?" or "Where are we now?" The answers obtained will determine what high-level measurements are required, and some systems will likely be required to obtain these. Ultimately, change is initiated for the purpose of improved outcome; hence, setting performance indicators in this area to measure change would be a natural development.

## Accountability

The organisation that is skilful in introducing and managing change will also identify and train a number of *Change Champions*. They will often work with and learn from any consultants used by the organisation to introduce and manage change. The *Change Champions* will usually be respected and politically skilled individuals who will work in key sections of the organisation. They will, by their own actions, demonstrate the new behaviours that are required of staff. They will 'Manage by wandering around'. They will 'Catch people doing the right thing' and praise them for it.

Other than being the *Change Champion*, the CE, like every other manager in the organisation, has the opportunity to support organisational change in several ways as an *Advocate*, a *Sponsor*, or a *Change Agent*. He or she would hardly be a *Participant*; else he should not be the Chief Executive. Considering the vital importance of the human dimension in accomplishing any major change, one of the most valuable roles the CE can play is to help support adequate consideration of the human implications of change. It is vitally important that the CE recognises and accepts this role!

Whether the Chief Executive nominates a *Change Champion* or not, the Board through the Chief Executive and the line management hierarchy remains responsible for the changes. Other than the *Change Champion*, there are typically four different generic roles that people throughout the NGO have to play. The more these individuals have been identified and are aware of their roles, the stronger will be their efforts.

By acting in this way, the CE can help ensure success by promoting a balanced approach - one that takes into account financial, technical, and human perspectives at every stage. The CE works with colleagues to promote the kind of teamwork that is essential to accomplish major changes and looks to identify other *Advocates*, *Sponsors*, or *Change Agents*.

Ultimately, the Board of Directors would be held accountable for the failure to



deliver on the change, because the sustainability and viability would be undermined.

## ***System Integrity and Review***

Change is long-term and for it to be effective in the organisation, there have to be a series of mutually supportive and reinforcing changes. These may have to be introduced in a series of on-going and incremental changes that are steadily rolled in over time: as fast as possible but at a pace that the organisation can cope with.

If pain is inevitable, most people prefer to face it upfront and get over with it. A delay only brings added complexity; so much so that a delay would be seen as a solution and everyone would rather 'not talk about it' and would simply revert to the old way of working. This is ineffective management of a major change initiative. This is not a recipe for change; that is so slow that no change is discernable. However, the managers of change do have to take into account of organisational history and culture and the capability of those in the organisation to cope with change.

Planned change means exactly that. Changes must be planned; for this is a guided process, and doing nothing will be seen as a management's decision. The changes to be introduced are planned and are the result of careful thoughts. In managing the changes, the leadership of the organisation has to ensure that the changes are being cemented into the new reality in the organisation. This is an important reminder. Planned change is usually done by employing two basic techniques. These are:

- *Focusing on rewards and sanctions; and*
- *Showcasing champions and heroes.*

Very early in the guide we emphasised the importance of the performance management and reward management system. In managing staff in organisations you may not get the behaviour that you expect but you will get the behaviour that you reward. This reward may be financial. It may be provided by enhancing somebody's status or it may simply be done by giving the individual recognition. This principle must be applied in reinforcing desired behaviour and cultural changes in the organisation. Competency and performance-based reward systems are often used to introduce and reinforce change. Public recognition of those who display the behaviours required is common place. The many 'Employee of the month' schemes in existence are examples of this.

The use of heroes and champions in the reinforcement of change is, of course,

very closely linked to this. The 'Employee of the month' is a hero in the organisation. Identifying employees recognised by your service recipients through simple customer satisfaction programme is another example. The hero will become part of the mythology that is a fundamental element in any organisation's culture.

From time to time, the system should be evaluated independently by outsiders such as independent auditors and management consultants at least once every five years to ascertain its robustness and its applicability to other operating systems.

The Board can remind itself to look for the "Urgency for Change" and the existence of a clear direction where the organisation will be heading towards.

## ***Feedback and Communications***

Change involves risk and uncertainty. As we have already mentioned, it can threaten the status and power of people in the organisation and even their sense of self-worth. In a public service organisation and an NGO these issues can be even more acute than in the private sector. Many of those who join public sector organisations do so because of the security and certainty that they offer. Change introduces those things which many of these individuals fear most: uncertainty and insecurity. To overcome fear, feedback and communication is absolutely necessary.

In introducing and managing change, the leadership of the organisation have to address and use this fact. That is, they must offer to those who fear change and uncertainty the possibility of certainty and security in the change process. This is done by following a simple formula. Best practices suggest that the leadership must continuously communicate to the staff:

- ☐ *A clear vision of the organisation of the future.*
- ☐ *The broad direction in which the organisation will be heading to achieve this vision.*
- ☐ *The main steps along this path, the key actions that the organisation will be taking.*
- ☐ *The costs and also the benefits of the changes.*

This formula for action helps to demonstrate to those who are afraid of what is happening that the leadership does care, has planned out what it is doing and is in control of what is happening. In communicating these facts to the staff, the leadership is also addressing other issues. It is making a clear statement that:

- ☐ *The changes will happen and are not a matter for debate.*



- ❑ *Staff can achieve security by accepting and helping to implement the changes.*
- ❑ *The changes will involve some 'pain' but that the gains will outweigh the 'pain'.*

Skilful leadership also makes it clear that it will support and help those involved in the changes by training, counselling and any other help that is needed. This is made clear not for moral reasons but for the practical reasons that this addresses the fears and concerns of the staff and makes resistance less likely. Communication is key to the change process and consultants involved in helping an organisation through significant change will advise that the organisation set out a firm communication strategy. That is, the leadership has to determine:

- ❑ *What staff need to know. The needs of people focus on their concerns and fears and how the changes will affect them. They have little concern for others or other parts of the organisation.*
- ❑ *When they need to know. People need to know in advance what will be happening to them, how they will be looked after by the organisation and have to be kept in touch as changes are introduced.*
- ❑ *How they will be informed. Some consultants use the 'Rule of 7'. They recommend that the organisation use 7 distinct means of transmitting any piece of information.*

Many organisations publish monthly or weekly updates of changes taking place or about to take place. They publish CD-ROMs, send out individual letters to staff, conduct briefing sessions and have an internal email system with facilities for raising questions. They do not rely on one or two methods of communicating and they do ensure that there is frequent personal contact and face-to-face communication. Over-communication is much preferred over less. Frequent feedback, at least once a week, delivered by those with authority, will continue to generate positive impact on this component.

If staff feel that they are being denied information, they will tend to assume that this is because the leadership is trying to hide something. That this is because the information contains bad news and so the leadership can no longer be trusted. If the leadership does not provide the information, people will invent it for themselves. And they will always invent bad news!

As the plan is put into operation, it is vital to monitor the results, to ensure that the planned actions are executed and to understand whether these have generated the desired outcomes. Proper monitoring and feedback will highlight unexpected outcomes (exceeding or falling short of expectations), and the organisation should learn from this experience. This knowledge is used to adjust



the plan, reinforce effective approaches and modify ineffective ones. This is quite different from the common practice of fire-fighting situations without really trying to find out what went wrong or trying to prevent recurrences. This information is discussed both at the management level and the Board level.

## ***System Linkages***

Organisations can be regarded as intricate systems and it is this complexity that we need to take into account when we are trying to introduce and manage the change process. That is, organisations are a complex of interrelating factors each of which affects and influences the others and is influenced by them. Within the organisation the factors that interact to produce the behaviour that we see displayed by the people in the organisation include:

- ❑ *The surrounding culture from which come the people employed by the organisation.*
- ❑ *The culture of the organisation itself.*
- ❑ *The style of management generally used within the organisation.*
- ❑ *The structure of the organisation and the administrative and other systems that it uses - the most important of these in terms of the behaviour of the employees will be the HR systems.*
- ❑ *The skills possessed by the staff.*

However, organisations are themselves influenced by the environments that surround them. They are open to this influence because, at the simplest level, they take in resources from their environments and process these resources into products or services. They then sell the results of this activity back to individuals or other organisations in the surrounding environment.

Organisations are, therefore, *open systems* which are in constant interaction with their environments and which need this interaction to sustain them. The recognition of this fact and its importance for organisational analysis and change rests with leading researchers in systems thinking like Katz and Kahn in the 1960s and Peter Senge in the 1990s. This conceptual breakthrough has been fundamental to effective change management and will be key in our consideration of the change process for the NGOs. Therefore, the first level of linkage is with the environment.

The second level of linkage is within the organisation itself. When individuals have no involvement in the manner in which change is introduced, they usually have



little commitment to those changes. The leadership of the organisation may have made it clear that the changes must take place but they will have only set out the broad path and major steps in the changes. The detail of the change must involve the staff and allow them to gain some benefits from the changes. Linkages here mean involving staff at all levels of the organisation.

In all changes, individuals will ask themselves 'How will I gain from this?' Even if the gain is no more than the relocation of the copying machine, they must be allowed to gain and must be involved in planning and implementing the change. The power of the group over the individual will usually ensure that, where there is no involvement, there will be little commitment. Change will not lead to the benefits that were anticipated unless involvement is applied and staff believe that they are an integral part of the change process.

Change management should be coordinated with the strategic plan that had been adopted. Again for emphasis, "the on-going management of change helps to ensure that the organisation is faced with evolution rather than revolution. It moves along a smooth path into the future as its long-term Strategic Plan is realised."

Change in a complex organisation needs to be understood in its complexity. Because an organisation is a complex systems open to the environments, the *Change Champion* has to realise that this conceptual breakthrough is key to the successful management of change. Nevertheless, many senior managers fail to recognise this truth in the actions they take. In many cases, senior management relies on single or simple initiatives that fail to take on board the systems nature of organisations. They may change the formal organisation structure without supporting system changes. They may act on the skills and responsibilities of staff without structural modifications and action to align the performance management and reward systems with these changes. Effective long-term change demands a series of supporting and mutually reinforcing changes to be made.

Symbols, culture and leadership behaviour are examples of the inter-relatedness of change. The way in which the leadership of the organisation behaves during the change process will have a significant impact upon its effectiveness. The leadership has to display behaviours that exemplify the new culture. This is simply because, like all human beings, organisational staff will believe and copy what they see, not what they are told.

These new behaviours are by themselves powerful symbols of the new culture. Combined with real symbols of the new order, they can be drivers and re-enforcers of change. For example, altering the layout in a service centre or kiosk to make staff more readily accessible to customers and more easily seen by them is a powerful symbol to the staff and the people they serve of the customer orientation of the organisation.

## ***Recommended Steps for Closing the Gaps***

Implementing change in an organisation usually demands change in the culture of the organisation. For this to occur the following actions have to be undertaken:

1. Clarify the extent of change needed and put together a plan for change.
2. *Create a sense of urgency!* The fundamental issue in change is whether the organisation, or the key people within it, are aware of and accept the need for change NOW. If they do not, the chances of achieving real and long-term change are very limited or non-existent.
3. Identify a new direction that the agency will be heading. Paint a vision (this should be linked to the strategic planning process).
4. Begin an exercise to disengage from the past. The future must be made to purposely disengage from the past.
5. Identify a Change Champion.
6. Involve the staff as much as possible. Let them solve problems in teams.
7. Consider restructuring the organisation such that individuals who are responsible for targets are given more authority to help bring about the nominated changes.
8. Link the performance management system (competency-based) into this system. Individuals are appraised on the extent to which they demonstrate the behaviours required under the new culture.
9. Promote the new behaviour. Individuals who demonstrate the new behaviours required under the new culture are openly recognised, and rewarded - financially or through promotion.
10. Reinforce the new behaviour. The Chief Executive and the senior management team are seen to 'live' under the new culture.



# **Good Practices in Marketing of Social Services**

## ***Definitions***

Marketing in the NGO sector deals with the ability to understand the changing demand and desires of the service recipients and from there, deliver on such perceived value-added services to them, at a quality and price level that they would find worth the value. Under LSG, marketing for an NGO directly impacts on the ability to draw in donations and fee-based services. Marketing encompasses a number of disciplines which include marketing research, service and product development, marketing channels, sales, branding, promotion, advertising, public relations, distribution, pricing, and more importantly positioning in the minds' of the users, donors, and stakeholders.

## ***Purpose and Implication of the System***

Without marketing, service recipients would not know the types of services provided by each agency nor know what and how to contribute to the funds of the agency. Marketing is an expensive art. In the past, most agencies do not have marketing or simply promotion budget as there was an assumption that by producing the products or services customers will beat a path to the door. Under LSG, this will change and each agency will have to purposely put aside money for marketing.

The field of marketing is at the centre of change for the NGO sector. The impact of the Internet on marketing and how firms can build marketing competitiveness using this new medium, global competition even amongst the NGOs, and the rapidly rising consumer expectations have affected the speed of which marketing and management of marketing in the sector much change. Unlike the commercial sector, marketing is not as cut-throat for the NGOs. Mutual interdependence and cooperation amongst the NGOs underpins the general behaviour of the social service sector and the expectations of the recipients. Agencies need not compete head on, like the commercial sector, and their marketing strategies are more of joint collaboration than out-right competition for attention, time, and space. Nevertheless, as the law of economics applies to everything, even funds, there will be less funding available and NGOs must now proactively manage their marketing system.

Because agency often must appeal to a base made up of multiple constituencies or stakeholders, it needs to segment its strategy so that the expectation and satisfaction level of each can be addressed. One group may be corporations acting

as donors and the agency would need to devise a particular strategy to address how their (the corporation's) gifts would be looked upon by their customers, how it would benefit their employees, and how their gifts would aid their own marketing efforts. Successful NGOs proactively manage marketing while those who have difficulty securing funding are reactive to this management system.

## ***System Features***

Marketing is the continuous diagnosis and analysis of the demands of an agency's core customer base, and having done that, devising strategies to meet those demands. Before a marketing plan can be formulated, the agency must know who are these core customers? An agency's core customer base would include these:

- ☐ its service recipients;
- ☐ corporations or strategic donors; and
- ☐ potential directors, the media, regulators, HKCSS, the Social Welfare Department, and any other party that can influence the success of the agency.

Marketing to stakeholders and to raise funds is slightly different from the marketing strategy to promote purchases. Both are marketing related however. The former deals with the thematic aspect of marketing while the latter deals with marketing execution and more purchase-orientated tactics.

Therefore, the first thing the agency must do is to segment its customer base and devise a strategy to meet the needs of each of the segment. As an NGO, it has to be very careful in developing strategy that is not seen to be biased towards any party. It has to treat all who walks through its doors and provide the same basic level of service at some stated prices; but it can also ask for a premium for those demanding premium services. Good practice would suggest a well-managed NGO would have a marketing strategy for each of the segment.

Marketing involves marketing mix, which is a set of tools that management can use to influence sales, and the traditional ones for the service industry have included the so-called 7Ps - product or service, price, place (distribution), promotion, personnel, procedures, and physical evidence (ambience). In other words, the 7Ps are important contributors and features of marketing. The choice of tools would depend on the size and maturity of the agency. For example, in promoting the agencies, smaller agencies would probably use less television advertising and more direct mail as the latter is much less aggressive and can be amended rather quickly.



Sales or the ability to sell the agency's products and services is one of the most important components of marketing. Marketing relies very much on the execution of the sales which relies on personnel or your front-line workers, and unless this is in place, there is no result and marketing schemes used cannot claim to be successful in any degree. Marketing is meaningless and wasteful unless operations can support the campaign that was launched (like hand-eye coordination); otherwise, it can be detrimental to the agency as it would expose the execution weaknesses of the agency. Keeping the interfaces simple and seamless across departments is paramount to a successful execution of any marketing campaign.

An important part of marketing is the generation of the marketing and sales plan. The plan covers the inception of new services, through to development and distribution, to customer purchase and of course, repurchase. The centre of the focus is the customer, or in this case, the service recipient, and according to Professor Charles Steilen, marketing can be viewed in terms of a matching process between what the customers want and what the service providers can deliver.

In order to develop a marketing plan, an NGO must conduct a market analysis. It needs to understand how it competes with its rivals, however friendly. This is done through marketing research.

Having repeat customers is an important concept. Service recipients at NGOs tend to be more loyal as the service required often is needed over a longer period. That is, for each agency there is a steady sector of customers that has been customers for a number of years. They keep returning. Therefore, for NGOs, the value of 'relationship marketing' is fundamental to how well an NGO markets its products and services. Relationship marketing (RM) refers to the agency's relationship with its service recipients, employees, suppliers, donors, and other stakeholders. When relationship is strong, cold calls will be much less in quantity, resulting in a much higher marketing impact.

Successful agencies would keep a relationship scorecard with key service recipients that keep tabs on the last services taken, keeping track of the strengths of the relationship. Agencies would tend to provide the front-line service workers and request much more frequent and closer dialogue with their recipients. This is a shift in mindset from delivering just enough support. Some would even empower their workers with more authority to decide what and how to meet and exceed service expectations, as one means of raising service quality so as to generate continual demand. RM-based agencies would provide more choices to the customers so the customers may have more options. Prices too, would also reflect the extent the relations or number of services ordered or received by the recipient. The more types of services received, the lower is the price for each item of service. These are used interchangeably to encourage service usage and consumption.



RM favours more direct or one-to-one marketing as well. Agencies that have traditionally used direct mail to get to their customers are now moving towards using email as this is much more cost-effective. NGO is an industry that has favoured the use of direct mail because this has tended to be low cost with discount, but with high volume and unsophisticated sorting, the paper costs and postage costs can be exorbitant if not properly managed.

Linking into RM is the new focus on Customers Relations Marketing or CRM. The adoption of a customer-centric strategy by many corporations and NGOs worldwide has made better management of customer relationship a top priority for management. With increasingly intensified competition, management and promotion of its relationship with customers have increasingly become the key differentiation of many organisations and the critical strategy to win over and retain customers. The focus on CRM introduces modern sorting and tracking technologies as they can make "mass customisation" a reality. Agencies are learning how to leverage the power of CRM on their personal computers and simple server setup.

Finally, branding (image) and public relations are important components in marketing and are integral parts of marketing, and if used properly, can substitute for advertising which has tended to carry higher costs. We will cover branding, image building, public relations and other related topics in the 'Managing Stakeholder's Perception' component which will be covered in another discussion.

## ***Accountability***

Planning and executing the marketing strategy belongs to the Chief Executive and the marketing team if any. Providing research evidence into the needs of the customers, product and service innovation, advertising and promotion, and other matters would be delegated to the appropriate incumbents.

Good practice would suggest that the Board of Directors is ultimately held accountable for the development of the marketing plan. For a large NGO, typically a sub-committee of the Board would be held responsible for the development of the marketing plan and strategy, with the CE being held accountable for the delivery. The sub-committee so identified may be called the Marketing and Public Relations Committee, or even the Fund Raising Committee as the main work of marketing, solicitation, and sponsorship would belong to this committee.



## ***Systems Integrity and Review***

How do we know that the system of marketing is working? Or more specifically, if CRM, or the tool that is most preferred by NGOs, has worked?

Marketing works if there are a good number of service recipients who are returning customers, who are using products and services as developed and provided by the agency for them, and ultimately find value in the things offered by the agency. Value here is defined as the difference between what is paid with what they perceive they have got in return for the services and products provided .

Marketing is a purposeful event. Good practice would suggest that marketing must be purposely designed into the organisation. When there is no marketing budget, marketing cannot work. When there is no marketing plan, marketing is probably not coordinated and thought through. When the agency does not understand the make-up of its customers, the demand and expectations of each type, marketing cannot work. When the agency does not believe in building a relationship with its customers and provide services in this regard, marketing cannot work.

For the sophisticated agency that has implemented some form of relationship marketing and is looking into CRM, the following guidelines are useful. In general, CRM can add value to the agency under the following conditions:

☐ ***Yes, if***

- The agency can collect lots of data on the service recipients;
- The agency can take advantage of cross-selling and up-selling; and/or
- Service recipients have highly differentiated needs.

☐ ***No, if***

- Lifetime value (the total potential service fees collectable from the recipient) is low;
- The agency business has high turnover and customers don't tend to stay with the agency; and/or
- The agency has no direct contacts with customers which reduces its ability to collect data.

CRM is an expensive undertaking and must be approached with care and preparation. The reasons for CRM failures have included these for many NGOs:

- No champion or support for this at the Board level (that is, the agency does not have a marketing strategy that would be executed through a CRM approach);

- The agency forgot about the importance of data integrity and maintenance. Data are updated by anyone at the front-line and eventually the database contains lots of corrupt information.
- Sometimes, the agency would forget about the people issue as this new CRM culture is introduced. CRM focuses on each customer and supports the customer-centric service by the front-line. If the front-line is not ready, CRM cannot be ready. The service culture is not there in the first place, as in the case when the agency staff really don't believe in offering quality service;
- Service recipients really do not want a long-term relationship with the agency or that they refrain from offering data to the agency for fear of disclosure or mismanagement;
- Poor cross-departmental coordination which leads to weak execution; and
- Forgetting the need to measure and track progress, and having the CRM activities de-linked from any performance metrics. That is, the Board cannot see the value and investment in maintaining the relationship or taking on the extra financial burden imposed by the CRM at the agency.

## ***Feedback and Communications***

How does management come to learn about the current status? What is going on in terms of agency marketing efforts?

The first clue is measurement or the existence of measurement. Since marketing can be expensive, it must be measured. Good practice would suggest that measurement can only be applicable if objectives, that is, marketing objectives, have been set beforehand. The clearer the objectives, the more explanatory power will be the measurements. Some of the relevant questions would be:

- What is the agency's advertising objectives? To inform 10,000 customers? To increase purchase by 10%? To remind users about the new service and seeing that at least 10% of the users would try out the service, etc?
- Did the last marketing campaign meet the stated objective?
- What type of market research has the agency undertaken? (please refer to the attached list).



A well managed NGO has a database of core customers. It knows who the customers are, when they last accepted the services of the agency, what they wanted, how their wants have changed, and how they are advocating the services of the agency to other users. Good practice would suggest that the NGO would have installed a CRM system to bring about and enhance the relationship it has with its core customers. In other words, how well the agency has been able to capture, maintain, and employ the customer base is a clear sign of the system's current level of feedback and communication. The assessor may want to identify the following:

- Has the agency accurately identified its various stakeholders and constituencies?
- What is the market share?
- Who are your customers and how do they differ from those serviced by your closest competitors?
- Has the agency been able to offer products and services that are expensive or acceptable by the core customers?
- Has the agency promoted the core services to new customers?
- How many new customers were there for the last quarter and what was the rate of increase?
- Are the customers satisfied with the services offered?

Understanding and formulating a marketing strategy requires a thorough analysis of the surveying strategy. Please refer to the attached worksheet in determining what type of survey instruments is or can be installed in the agency.

## ***Systems Linkages***

For the services related industries, "service quality is one of the most promising sources of differentiation and distinction", said Philip Kotler, the father of modern marketing. For the marketing system to work, it must be intricately linked with the TQM component or how quality is defined. It should also link with the component on Managing Stakeholders' Perceptions (Image and PR), Strategy (as Marketing is an integral part of strategy), Transparency (as this refers to how much and how often information should be disclosed to the constituencies), and Fund Raising (which is one of the key aims of marketing).

As new products and services must be continually developed for the agency to remain competitive on an ongoing basis, this component is also linked with the management system on nurturing innovation. Finally, given marketing research should play an integral part, this system should also be well linked with the

Monitoring and Information System component, particularly on gaining information about the industry and its competitors.

## ***Recommended Steps for Closing the Gaps***

The process for improving a marketing effort would probably include these simple steps for an agency:

1. Conduct a marketing audit. Examine your marketing objectives, marketing plans and strategy, and results achieved.
2. Understand and segment your customer base. Customer is the centre of all marketing activities.
3. Examine how that last plan has been implemented. If there is none, put together a marketing plan.
4. Review the competencies of the marketing team and see if there is a need to bring in marketing expertise. Consider using marketing experts and advertising agency on a retainer basis.
5. Undertake marketing research, for example, identify the key services most demanded by your core customers.
6. Understand your corporate customers or the profile of your past and potential donors. How would your agency fit into their strategic goal?
7. Fix your key services/products. Then improve your key services to a level above your closest competitors. The first step in service marketing is your service.
8. Establish or re-establish your agency's Unique Selling Proposition (USP) and understand how to communicate the one message to your service recipients. Try to answer these questions:
  - Why is your agency so unique?
  - Why must your customers come to your agency for service?
  - Why can't they go elsewhere, pay less, and get better service?



- What is the name or brand of your service/product?
- How can you get more customers using your service/product?
- Where is the value?

9. Install a system to track the quality and value of service. Begin a regular customer feedback or customer satisfaction program.

10. Identify which portions of the marketing efforts are not bringing in the added value, then re-shift priorities and resources to that channel or mix that has worked.



## Customer Satisfaction Measurement/Feedback Collection & Monitoring Options for NGOs Table

Type of Survey	Frequency	Purpose	Limitations	Appropriateness
1. Large scale telephone or postal survey	Once every 3 years or annually	To take a snapshot of the current satisfaction levels for key products and services. The primary purpose is to <b>augment</b> and <b>broaden</b> the initial data set so that follow-up and expansion can be applied on key variables.	Generalization is possible and results can be compared across the years due to statistical robustness.	
2. Investigative telephone or postal survey	As needed	To <b>identify</b> the key components that would be considered key service and product attributes. The main usage of this method is to broaden the underlying context.	Small sample bias, short term recall bias, and inefficient. Tend to be contextually based.	
3. Customer Focus Groups	As needed	To <b>confirm</b> a particular data set or the usefulness of the large scale survey or to <b>elicit</b> innovative ideas on how service can be improved for a certain segment through brain storming exercises.	Focus groups tend to be from different customer groups. Difficult to replicate and generalize to the population.	
4. Individual and group interviews	Should be done annually with key customer groups.	To <b>develop</b> a more detailed view of the topic and users are prompted to generate new insights of service elements. Often, interviews are also used to verify the progress of change. These group interviews typically include individuals from the same organisation. When done after the delivery of service or product, it is called after-service survey and	Information is rich and difficult to aggregate across the different interviews. Substantial investment in time and resource is needed and sometimes the interview may drift off course.	



is quite useful.

Type of Survey	Frequency	Purpose	Limitations	Appropriateness
5. Written complaints and suggestions through mail or fax or walk-in.	Continuously	To <b>provide</b> a channel for case feedback. Policy on handling enquiries and complaints is in place.	Difficult to prevent staff from mis-logging the complaint or not logging the complaint at all. Letters are difficult to categorize and tracked for completeness and timeliness of response.	
6. Written complaints and suggestions through organisation's website.	Continuously, easily accessible by clients.	To <b>provide</b> internet users and the public with a means and channel to liaise with the organisation.	Can be simplified if users are allowed to select the category of complaints or suggestions. Difficult to respond to queries as the volume of requests can be quite substantial.	
7. Counter Suggestion Form	Applicable for on-site service delivery and product sales points only.	To <b>provide</b> a means with which service recipients and customers are allowed an opportunity to evaluate and feedback to the organisation.	Reactive as the form might not be able to draw customers' attention and users must take the trouble filling in the form. Also, only applicable for those who come to the organisation.	



Type of Survey	Frequency	Purpose	Limitations	Appropriateness
<b>8. Service Registration and User Feedback Form (through email or postal).</b>	Continuously or when a service is delivered.	To <b>identify</b> the extent to which users are comfortable with the new products and services and immediate feedback is sought.	Unless there is a mandatory registration requirement, most users will not take the time to register. Hence, without this, it would be difficult to understand the changing expectations of the users on each product/service.	
<b>9. Hotline</b>	Continuously	To <b>provide</b> a channel to customers who want an immediate response to their case or to their general enquiries.	Tends to collect all types of information and difficult to differentiate them from a single call. Insufficient level of data entry, which undermines clarity.	
<b>10. Mystery Shopping</b>	Once a year to verify service levels.	To <b>gauge</b> the service levels at the contact points where service provider and customers/users would meet and to allow users to evaluate on a first-hand basis the level of service as provided.	Useful to assess wait time, attitude, and understand competitive positioning. Difficult to generalize.	



# **Good Practices in Managing Stakeholders' and Public's Perceptions**

## ***Definitions***

This management system deals with the process of creating, managing, maintaining, improving, and removing an agency's image, brands, and public relations practices.

## ***Purpose and Implication of the System***

Under LSG, managing stakeholders' and the public's expectations is important because this is a proactive means to establish an agency's mission in the eyes of the stakeholders. An agency's image and reputation is grown over time and must be guarded against and mentored with the utmost care.

An agency constantly is put to the test and an agency's image will and can change quickly. If an employee suddenly quits and cries aloud of mismanagement to the press, or the Chairman's photo is taken with him in an embarrassing situation and shown on the local magazines, the situation needs to be managed and managed quickly. Directors often assume that the public will forgive and forget, but often the case, they do remember and will seriously reconsider their donation or volunteerism when the time comes. The proper course of action is for management to quickly deal with the negative press, events, statements, or impression. Because image is based on beliefs, an agency can change adverse opinion by proactively launching its own campaign to create positive impressions, and need not change any of its fundamental services or programs.

A positive image in the form of organisational self-image is contagious for the staff. A feeling of enhanced self-image is a strong reason why individuals want to join the Board of Directors or become volunteers of the agency. When the employees believe in their cause, they are much more bound to deliver the extra level of service that differentiates the mediocre NGO with the outstanding NGO. All NGOs should strive to build and maintain a positive image.

## ***System Features***

Central to the issue is the ability to create, establish, and maintain an image in the marketplace. Image is the sum total of the agency's history, beliefs, mission, ideals, values that have been perceived by the respondents. In leading NGOs, how the stakeholders are able to build the image, any image, is purposely managed by the NGO. Nothing goes to chance. Everything the stakeholders hear, see, and experience are provided to serve a purpose, that is, to help extend the mission of the NGO. In the NGO world, a strong positive image is a crucial factor in gaining acceptance in the minds of the recipients, donors, employees, and community supporters.

Image is a difficult thing to grasp. And rarely all perceived images are the same. Positioning, or the image of the organisation as perceived in the clientele's mind, often sets the framework which they would deal with the organisation. People operate by what they think, not by what is true. With this as a background, this component focuses on understanding and managing the image that the agency had been perceived by its stakeholders, both externally and internally. By calling out this image, the agency will be able to identify a set of recommendations with which to remedy the situation.

The image of the agency or, for that matter of any institution can be formed and reinforced through the way in which information is disseminated through the agency's channels of communication. The various channels play an important function in the system features. Forms follow functions and any communication structure and channels would be reflective of the agency's strategy in this regard.

There are several prominent channels in which image can be built over time for most NGOs in Hong Kong. Good practices would suggest that images are reinforced, and reinforced consistently in all the channels, not just one or two channels. Images never conflict with one another. These channels, working together, would create the agency's image, and the channels would probably include the following:

The physical surroundings at the Headquarters and service centres;

- Posters;
- Invoices or request for donations;
- Newsletters;
- Regular briefings to the press or media;
- Auctions;



- Hotlines;
- Service complaints;
- Letters to the service recipients;
- Service fee charge price list;
- Flag days;
- Director's social gathering or social circle;
- Internet homepage;
- Marketing literature;
- Words of mouth; and
- Media news and reports.

Finally, branding (image) and public relations practices are important components of the system for managing the stakeholders and the public's expectation and in terms of the overall marketing system. If used properly, these tools can substitute advertising which has tended to carry higher costs.

The management of the expectations of the stakeholders is done in a proactive rather than a reactive manner. This is carried out by:

Publicising the successes of the organisation by careful management of the media.

When dealing with the media the organisation has only the Chairperson, the Chief Executive, or an assigned spokesperson, speaking to the press.

There is an agreed 'line to take' on issues of interest to the media and the spokespersons keep to this.

The spokespersons are trained to deal with the media.

## ***Accountability***

Planning, building, and executing the image and branding strategy belong to the Chief Executive and to the Board of Directors. The Board of Directors is ultimately held accountable for the development of the image of the agency because more than anything else, this is a long-term process. The Board or the Chairman often has a higher profile and would typically be the first reference point for the media.

Larger NGOs may have their own PR team, typically managed by the Board Secretary or the CE. For medium-sized NGOs, a sub-committee of the Board so identified may be called the Marketing and Public Relations Committee, the Fund Raising Committee, or the PR Committee and their main role is to deal with the press, particularly during crises. For small NGOs, the CE and his/her secretary would be tasked with this responsibility.

Effective NGOs, regardless of size, have operated on a line-to-take support system. That is, the agency would produce appropriate statements for its entire staff to take, on critical issues, within 24 hours after some crises have taken place. Often, the Chief Executive would call an emergency telephone conference call or meeting of the responsible managers and put out a statement to the Board. This message is then presented to the media and the public by the Chairman and/or the CE. No one on the Board is allowed to deviate from this statement and no one is allowed to represent the agency unless officially sanctioned by the Chairman.

Some NGOs may want to establish a media unit. For those that have strong media appeal or tend to cover controversial subject matters, this is often a necessity. To take on this initiative and install it as a regular system, the agency would need to set in place a new group of individuals. The group can be one person, a team, and even a unit. What would it be would depend on the strategy decided and on the amount of resources available. This is called the media unit.

The media unit focuses primarily on PR and would be held accountable for PR roles. In the absence of this unit, the Secretary of the Board or the CE would have this role. The media unit would be in a good position to focus on the needs, the shifting concerns, standards of best practice, etc. of the agency and the industry. Such information would not just flow into specific public relations but also into customer service initiatives and support. It is of no use having a well-written friendly brochure if there is no helpful voice at the end of a telephone line. Here we would assume that the agency already has or in the process of putting in customer services support. The media unit should have clear, pre-defined authority to respond directly to media enquiries on certain topics, and be able to have immediate access to identified management staff or the Board for higher profile requests for information or interviews. The media unit staff should be aware of the working environment and especially the deadlines imposed on journalists and seek where possible to accommodate these journalistic limitations. Journalists like angles on stories - the agency should consider both information releases containing specific departmental messages and human-interest stories. The media unit should be able to 'trawl' the department for interesting stories about their staff, or at least make the



staff aware that there is an interest in their lives from the general public.

For those agencies with lots of media attention, often they would employ their own professionals within the media unit and this has been found to be successful, although in smaller organisations the media role may be included with other duties. Media consultants are often used on a retainer basis or standby mode.

## ***Systems Integrity and Review***

How do we know that the system is working? How do we know what indeed is the image of the agency as perceived? How are we able to handle crises that erupt unexpectedly? How do we communicate with the media such that they publish principally what the agency wants to tell, not what the media want to convey? Imagine how much additional benefits an agency would have to provide to compensate an employee to work at an agency that has a shady and unprofessional image, or how much the agency would have to discount its prices in order to attract the service recipients?

An assessor should be able to identify the image or positioning through interviews and analyses with the community. Good effort by the agency is often not communicated to the public and is one of the key reasons why there is a discrepancy in perception between the staff and the public. Staff see and know that they have done a number of positive things for the community but are sometimes frustrated when they see how the media or how their friends have perceived their organisation.

To get an idea of the image donors or the general public have about the organisation, the easiest way is to ask. Ask several people to share their impression of your agency with the assessor, ideally without first disclosing the employer.

In the areas of handling crises, there should be a very clear designated communication dissemination chain. Various types of crisis should be forecast, considered and appropriate responses thought through and provided in an easy to follow crisis manual. Good practices would suggest that the leading NGO in anticipation of possible crises would often conduct a pooling of knowledge from a reference group of individuals. This would help in a positive way to assess the operating environment and help prepare staff for the unexpected which may be

confusing and demoralising. A system of handling crises as described earlier should be put in place whereby information is quickly channelled to those who must know.

### **Corporate Image and Branding: The Power of the Agency Logo**

In all communications, clarity is prized by most stakeholders. They like to know whom they are dealing with, what they do, and how that impacts on their livelihood or concerns.

With the power of brand names, such as Nike with their tag-line, 'Just do it', or political parties, stakeholder groups have become very used to easily identifying an organisation and its corporate identity just by looking at the logo. We know the difference between Cathay Pacific 'The Heart of Asia' and British Airways 'The World's favourite airline'. Best practice would remind us that a known organisation takes advantage for marketing at every turn. Its logo appears prominently in all strategic locations. Logos should appear in all its press materials, literature, letterheads, and every possible visual that would represent the quality and values of the agency.

The way in which the logo is positioned and consistent use of colour play an important part in etching the image of the agency in a constituency's mind. Success agencies such as the Red Cross have consistently used one colour for all its logo. There is no shade, just one Pantone. Logos should be respected for the impact that they can have and the contribution they can make to help improve the professional identity of the agency. Excellent organisations manage their corporate identity very carefully and in many companies, the brand name actually has a significant value in the accounts. The implicit message that the stakeholders receive if the logo of a large institution is not used consistently is that if they cannot manage their logo and materials effectively, how could they manage other more important issues?

Governments and NGOs are beginning to realise that if they are to be regarded as efficient and user-friendly, their materials have to look consistent, professional and designed with the user in mind. None of this is easy but again the pay-offs outweigh the effort. Good practice would suggest that the leading NGO would have developed an image guideline, to clearly and consistently set out and to support an image, a professional image that is. There should also be an operating policy guideline on how best to develop, communicate, and translate this image.



Good practice would suggest that the agency must be very clear on the brand and positioning that it wants to build and establish. Managing perception is a proactive undertaking and the following questions are recommended for the assessor to consider:

- Has the agency been able to assess the image as perceived by its key constituencies?
- Does the agency know or have a desired image or brand positioning? What is the desired brand personality?
- What is the most critical service or issue that is affecting the service brand?
- Has sufficient dollars been budgeted for public relations?
- Is there a strategy for enhancing and improving on its existing image?
- How has the Board or the CE handled a recent PR disaster? Did it lessen the rumours or created more opportunities for clarifying its image with the press?
- How quickly can the Board muster a line-to-take during the last PR disaster?
- Is your PR integrated with marketing tactics? For example, has causal marketing tactics (e.g. standing behind a cause such as 'no smoking') been considered which would like link with both PR and marketing initiatives?

Good practice would also suggest to the NGOs that they should put in place a clear and coherent master communications strategy, one that would provide the framework for all its key officers. It is important that this strategy is communicated and understood by all those who have dealings with outside stakeholders, particularly the press. Experience has taught the agencies that without a clear strategy, both internal and external stakeholders would assume their own.

The communications strategy should encompass a media strategy, an internal communication strategy, and should be linked to its operational and strategic plans. Moreover, customer services initiatives would be at its centre. A critical portion of the strategy would discuss the approach the agency would undertake to manage the expectations of each of its stakeholders. To manage expectations means to help them understand what to expect from the agency.

Performance pledges is a good beginning and many government departments and NGOs already have them. Successful NGOs have installed sophisticated

programmes to identify the expectations of the stakeholders, and then proactively manage these expectations to ensure there is minimal misunderstanding between what the organisation does and what the clients want from it. We believe an agency operating at the best practice level should do no less.

Central to this communications strategy should be a clear indication of the agency's efforts and initiatives in being transparent (for more reference, please refer to the Accountability and Transparency component).

## ***Feedback and Communications***

How does management come to learn about the current status? What is going on in terms of the agency's effort to manage expectations of the stakeholders and the public?

The public has often put the onus on the agency. It is not for the public to ask; but for the agency to inform. Transparency and accountability have put pressure on management to be more inclusive in the way that they communicate and work with their stakeholders. An assessor should be able to quickly identify or paint a picture of the system by first collecting all information that is sent to the stakeholders. These may include emails, newsletters, fact sheets, organisation charts, brochures, annual reports, web pages, a promotional video and a well-produced folder used for giving information packs to visitors. Everything that is seen by the stakeholders is put together and is assessed for consistency and clarity. On first impression, all these materials would be reviewed to see how they fit together and has been able to demonstrate that the agency has expended efforts and care in producing these materials.

In the old days, a government department or NGO could be a transmission mode, sending out messages to inform to stakeholders who may have had to rely solely on the NGO for information. No effort was made on understanding the receptiveness or the appropriateness of the information that was sent. However, nowadays information is not a rare commodity and if the agency will not provide adequate information, it can be obtained from other sources. So the new way of getting the agency's message across is to package information in a way that is immediately accessible and understandable to the target stakeholders. This makes the recipients feel that the agency is considering their needs. This does not mean that agency is giving unfair advantage, quite



the opposite. It means that the agency is proactively educating and telling people what they need to know and how they should go about interfacing with the agency in the most effective manner for all concerned. In fact the more guidelines and easy-to-understand materials that are given out to the public, the less likely there are to be perceptions of cronyism or corruption.

Some NGOs would even create a communication strategy. The implications of the lack of a communications strategy are that there are no clear guidelines for:

- Handling complaints;
- Media enquiries;
- Crisis communication.

A lack of communication strategy is how most companies used to operate, with each issue being handled on an ad-hoc basis. That was the past. Today, NGOs have come to recognise that the media and stakeholders have higher expectations for information and the reputation of an organisation rests on its ability to professionally handle communication. People expect that the agency is professional in its own field. They want to be assured that this professionalism extends to understanding their needs and that the agency is run with those needs in mind, rather than in a vacuum.

Moreover, the language and tone plays a role in helping to provide transparency and enhance communication. The proactive way to provide clear guidelines, particularly on service usage policies, goes a long way to eliminating subsequent enquiries. Ongoing and more regular dialogue with the press provides more opportunities to clarify things. In particular, proactively publicising its good work to the press should build up credit. Community relations events such as open-day and customer liaison workshops further open the way for dialogue and improve communications. A clear structure with clear roles in each department, to the extreme of assigning an individual to handle all PR and customer services efforts, further tells the stakeholders that the agency is serious about transparency. All these, while minor in themselves, when combined can and do form a critical mass to help eliminate opacity.

The press or the media plays a crucial role in providing the feedback loop. As a result, the agencies need to proactively manage its relations with the press. Again, managing expectations of its stakeholders cannot be stressed with more vigour and this aspect has been mentioned before. We now know that the press often finds two important attributes that would need to be managed. The first is the interface between the agency and the public; while the second is the overall perception of the agency, gained over various experiences in dealing

with the agency. From these two constructs, we recommend that the agency find ways to tell, inform, and brief the press of its activities. The press has a huge need, waiting to be filled. Secondly, and again reiterating what has been said before, we recommend that the agency seriously consider providing more lively, simple, and clean tone and language to the media. This is to ensure the public, who is the ultimately recipients of the media, would understand the work and achievement of the agency.

## ***Systems Linkages***

For this system to work, it must be intricately linked with the TQM component or how quality is defined and applied as we are referring to service quality which underpins this component. It should also link with the management components on Service Marketing, Strategy, Accountability and Transparency (as this refers to how much and how often information should be disclosed to the constituencies), and Financial Management and Fund Raising.

An effective system is likely to be linked to the strategy formulation system through these features:

- A vision and mission based on data collected from stakeholders.
- The vision and mission available to all stakeholders.
- The vision and mission can be revised as a result of further data collected through the monitoring of stakeholder needs and expectations.

The vision and mission should be part of a system whereby:

Feedback on needs, expectations and the extent to which they are met is regularly collected.

- Service standards reflect the needs of the clientele of the organisation and are modified as possible and appropriate based on this feedback.
- Service pledges are set out which incorporate the service standards and are available for all to see.
- Performance targets and performance criteria are clear, known to the staff and supported by the performance management system.



## ***Recommended Steps for Closing the Gaps***

The process for improving the current system would probably include these simple steps for an agency:

1. Identify what is the current image as perceived by the key stakeholder groups. Go back one year and collect all the press clippings concerning the agency and its directors. Assess whether the overall image is one of positive or negative tone.
2. Put in place a clear and coherent master communications strategy, one that would provide the framework for all its key service centres. It is important that this strategy is communicated and understood by all those who have dealings with outside stakeholders, particularly the press. Experience has taught most NGOs that without a clear strategy, both internal and external stakeholders would assume their own.
3. Create an operating policy guideline to explain its roles clearly to the different sets of stakeholders. It would be conceivable to see that different stakeholders would require a different set of perspective and language.
4. Consider continuing and expanding a more user-friendly tone and manner in all its literatures and dealings with the stakeholders. Keep the language and tone simple and straight-forward.
5. Look for ways to build into a stronger, repeatable image. How familiar is the logo to the existing clientele? New clientele? If they don't know the logo, what additional marketing efforts would be needed to build the brand?
6. Think of ways and means to reinforce the service or professional image of the agency. Consider how to best convey and reinforce the professional image.
7. Establish a crisis handling team, whereby the line-to-take can be quickly formulated and distributed to the appropriate staff and Directors.

8. Create a link with a media consultant and establish a process in which s/he can be called for assistance to help manage negative publicity.
9. Consider how the media unit should be established, given the demand and expectations placed upon the agency by its stakeholders.
10. Consider revising the policies and strategies as discussed in this guide.



# Good Practices in Knowledge Management

## *Definitions*

Knowledge Management (KM) is concerned with all aspects of knowledge within an organisation, including knowledge creation, documentation, codification, sharing, and how these activities promote innovation, learning, effectiveness, value creation and productivity. Underpinning the philosophy of any learning organisation or one that claims it would learn from its mistakes is the working practices of knowledge management. A service organisation or one that provides services as its principal value fundamentally would have to manage its knowledge over time, as knowledge would be one of the most important assets it possesses.

## *Working Terms*

**Knowledge:** At an individual level, knowledge is a conscious or unconscious personal capacity that enables someone to execute a particular task. As such, knowledge is a product of the information, the experience, the skills and the attitude available to that person at that moment.

At a more sophisticated level than data (the discrete transactional records) and information (which refers to the processed and collated data that help to make sense for decision makers), knowledge is highly contextualised information enriched with individual interpretation and expertise. In the organisational context, knowledge can also be looked at as information that is tested against the business rules of the organisation and found to be valid by knowledgeable individuals and is therefore elevated to a level of validated information or knowledge.

**Explicit Knowledge:** Knowledge which "can be expressed in words and numbers and shared in the form of data, formulae, product specifications, manuals, principles, theories, etc. This kind of knowledge can be readily transmitted across individuals and organisational units formally and systematically. Also, it can easily be processed by a computer, transmitted electronically, or stored in

databases".<sup>7</sup>

**Tacit Knowledge:** Knowledge that is "highly personal and hard to formalise. that is deeply rooted in each individual's actions and experiences, as well as in the ideals, values and emotions that they embrace. The subjective and intuitive nature of tacit knowledge makes it difficult to process or transmit the acquired knowledge in any systematic or logical manner".<sup>8</sup> Tacit knowledge is extremely difficult to capture; yet for complex work, it is likely more critical to task performance than explicit knowledge.

**Knowledge Assets:** Knowledge about environment (including markets and competition), products/services, processes, and technologies that contributes towards the successful functioning of an organisation. Besides having these assets, it is important for an organisation to know how to manage them to get maximum returns.

**Intellectual Capital:** It is "the sum and synergy of a company's knowledge, experience, relationships, processes, discoveries, innovations, market presence and community influence".<sup>9</sup> A distinction is often made between human capital - an organisation's people and the knowledge assets in their heads - and structural capital, the knowledge assets contained in processes, documents, courses, databases, etc.

**Learning Organisation:** An organisation that views its future and subsequent competitive advantage based on continuous learning and adaptive behaviour. It develops a culture and processes to improve its ability to learn and share both at an individual and organisational level. It is an organisation that is capable of developing, capturing and applying knowledge. As LSG is imposed on the social services sector, the ability for the agency to become a learning organisation so that it can remain viability over time should be a core consideration.

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<sup>7</sup> Donald Clark : [www.nwlink.com/~donclark/hrd.html](http://www.nwlink.com/~donclark/hrd.html)

<sup>8</sup> Donald Clark : ditto

<sup>9</sup> W. Miller, cited in article by Madsen, Susan R.: "Intellectual Capital - Comparison & Contrast", Performance Improvement, Vol.40, No.4, April 2001.



### ***Why is KM Necessary for the NGO Sector?***

Macro and longer-term trends such as the sluggish economy, the structural deficit that our government is now suffering, the aging population, changes in the immigration policy, and short-term unexpected incidents such as the recent SARS strike upon Hong Kong, are posing pressures and threats to the public services sector. These factors are exposing the weaknesses and the critical need for fundamental changes within the sector. Because public sector organisations are so directly accountable to the public as a whole, their failings and shortcomings are becoming all the more visible.

Major trends impacting on local social services agencies (which assertively can be viewed as opportunities) that have a knowledge management implication include the following:

**Greater demand for services:** The community is demanding higher level of service, in terms of both quantity and quality. Agencies must expand their services capability to more employees and across more service centres to match this growth in expectations.

**Push towards greater connectivity:** New capabilities are creating a push to connect public service systems directly to citizens, employees and vendors, who in turn are demanding the sharing of knowledge with the agencies.

**Enhanced public service through technology:** Opportunities are now available to integrate data and processes, while reducing costs and improving services. The use of technology to facilitate public services has grown tremendously. Technical aspects of service in public services are growing, with delivery of mobile computing, distributed training ("e-learning") and research capability (e.g. through the Internet).

**Increased collaboration with the private sector:** Greater awareness and increasingly active participation of private enterprises in social involvement and contribution as means of complementing, reinforcing, or leveraging their marketing efforts (so-called 'public relations' and concept of 'good citizenship').

**Citizens and direct stakeholders are increasingly demanding greater access,** including online availability and around-the-clock service (in other words 'greater transparency' and 'information on demand' from the service providers).

**Tightening budget and increasing difficulty in fund raising from the community: Bidding for government funding to finance new projects/service initiatives and privatisation are becoming the only options for agencies in the future.**

**New urbanisation pattern is emerging: Emerging new urban centres (e.g. along mass transit routes, particularly new railway lines in western New Territories) and the declining and aging population in traditional urban centres are changing the service demography of agencies. This will affect the agency's mission (i.e. service and marketing might have to extend beyond districts and communities that particular agencies have been serving for decades since their founding days).**

**Public service organisations are facing difficult times. So often hampered by outmoded working practices, inadequate funding and a reluctance or inability to learn from the successes and failures of other organisations, social service organisations like other public sector bodies are nevertheless now expected to deliver the same high level of service their customers are used to receiving from the highly competitive private sector. Such expectations may be met, probably with a corresponding belief in the acceptance and application of knowledge management practices.**

**Individual agencies will certainly be able to further add sector- and organisation-specific components to the above scenario. The general implications from the above are higher transparency, more efficient information flow (both internal and external), greater pressure for market orientation, higher responsiveness, more efficient and effective organisational learning. Knowledge Management plays an ever-important role in supporting and promoting these transformations, enabling agencies to move from the former mechanistic service-centred and operation efficiency-aiming mindset towards the organic customer-centred and service effective end.**

**There is no doubt that a wealth of talent and an untapped treasure of experience and knowledge exist in the social services sector. KM in fact promises massive returns for the sector. If agencies are able to properly leverage the considerable knowledge assets that are at their disposal, tremendous return is possible. If they are better able to develop a greater understanding of the needs of the people they serve (e.g. through tapping some of the massive customer databases that they own through CRM - customer relations management - that the private sector has been exploiting for years), and ultimately turn out significantly improved service delivery, social services organisations stand a good chance of achieving such expected success.**



Benefits that KM can help agencies to achieve include faster and better informed decision making, improved customer service, increased productivity, higher levels of innovation and greater structural flexibility.

### ***Strategies for Successful Knowledge Management***

The Board and senior management of agencies must recognise knowledge that the staff possess are strategic assets that contribute to the competitive advantage of the organisation: they are valuable, rare, inimitable and non-substitutable.

KM studies how knowledge in an organisation is created, preserved and used. Besides studying the technological aspects (which most people tend to unjustifiably over-emphasise) KM also attends to the people and relationship aspects: how people come to understand their situations through learning and knowledge; how people gain, transfer (or otherwise hoard) and act on knowledge; and why is it that good practice and good intention sometimes go wrong.

As an activity Knowledge Management encompasses techniques, technology, and organisational change. Knowledge Management is increasingly becoming a concern for governments and public service organisations at local, national and international levels seeking to support economic and social welfare development in the Information Age.

One key factor for KM to succeed is to find a way to capture the 'tacit knowledge' that resides in staff's heads as well as that which is/can be written down (the 'explicit knowledge').

Lessons learned across all types of organisations that have successfully implemented KM indicate that their strategies typically consist of the following three prongs:

***Cultivating beliefs and commitment of the Board and senior management*** - No thorough strategies can be exercised without first gaining the support from top management. The Board and senior management must firmly believe in KM and be fully committed to KM initiatives to gain high priority in the organisation's agenda and have resources earmarked for its implementation. In practical terms, the budget for training and sharing must be sufficient for example.



***Building a strong knowledge sharing culture*** - To start with, understand and foster relationships between individuals that reduce the time and effort it takes to share knowledge across an organisation. This includes identifying individuals with expertise and giving them the appropriate time, space and resources to build the common understanding and trust needed to share knowledge. The old concept of 'knowledge is power' must be discarded. (Simply hoarding knowledge does not bring strength to the organisation; shared intelligence and wisdom between work units within organisation do.) To foster and maintain this culture an appropriate performance management system that assesses, recognise and reward desirable behaviours that support and contribute to KM should be developed and installed. In practical terms, this refers to having a reward system linked directly to how much the employee shares his knowledge. (An incentive scheme that links to the suggestion system and an appraisal system that takes into account of knowledge sharing and contribution of individual staff members are good examples.)

***Creating an effective knowledge infrastructure*** - After identifying the areas of knowledge (e.g. project team knowledge) that are to be captured and having decided how it can be generated, codified, and transferred, a suitable IT infrastructure should be designed and set up. The infrastructure can consist of connecting systems, collecting systems, or knowledge structuring systems. In all cases, processes for gathering, evaluating, and refreshing knowledge must be set up. Mechanisms for tapping into the collective intelligence of employees must be in place. The management structure must ensure that the initiative has the appropriate role in the organisation and has enough resources to accomplish its mission. In practical terms, we may look at the investment in IT and software such as CRM that would strengthen relationship with the service recipients.

In converting knowledge to information, much of what is called tacit knowledge is lost. The person who possess the knowledge also knows what the information means, what its limits are (the 'know-whats'), and how it can be aptly applied (the 'know-hows'). This surrounding context (tacit knowledge) is lost when the information is saved and transmitted somewhere within and outside an organisation. So information transmission is not equal to knowledge transfer. The recipient must actually pick up the information in full context and learn how to use it in appropriate ways.

Knowledge is most effectively transferred through interaction, preferably face-



to-face interaction. Thus many KM projects focus on facilitating interaction, making it easier and more effective. Setting up interest groups and chat rooms within the organisation, forming and sponsoring 'communities of practice' (CoP) and information exchange networks with other organisations (like the "Knowledge Network" now in operation among government departments in the United Kingdom) are examples of these initiatives.

## ***System Features***

Best practice studies found that learning organisations tend to have shared mission statements that include a commitment to lifelong learning. Learning process is taken as a major business process aligned with the organisation's mission and objectives. They benchmark their practice against best practices of their industry and outside.

Inside these organisations five core KM processes are in place:

**Identifying knowledge** - people are clear of what they want to achieve and the knowledge that is required to make it happen. This involves an analysis of what knowledge is available and what knowledge is lacking (knowledge gap), e.g. customers' requirements, the value-adding processes and their steps.

**Generating knowledge** - processes like training, learning by doing, mentoring and coaching, joint problem solving, research & development, establishment of expert groups like those CoP (communities of practice) are in place.

**Storing knowledge** - knowledge is embedded in the organisation in its staff, not necessarily in IT databases (e.g. tacit knowledge). People possessing the knowledge are accessible.

**Distributing knowledge** - knowledge is available where and at the time when it is needed. Besides the documented and machine-retrievable knowledge, intelligence can easily 'flow', or be transferred, from one person to another via collaboration, workshops, coaching, etc.

**Applying knowledge** - knowledge can add value only if it is being used in the organisational processes.

## ***Accountability***

In most surveys on the critical success factors for KM initiatives, close to half of organisations name organisation culture as the key enabler. Having proper structure and processes is a second key contributor. Supported by the right information technology ranks only third (though a close one to the second factor). As top management plays a key role in promoting and moulding the culture of an organisation, it is therefore obvious that the ultimate accountability for successful Knowledge Management rests with the Board and CE, with his/her direct reports supporting. KM has to link to the organisation's key processes and priorities. The Board and the CE have to identify the key business processes and determine their priorities and derive an organisational strategy from KM. As the executive head of the organisation the CE then has to play the leadership role of creating and maintaining an organisation-wide culture of knowledge sharing, continuous learning.

Below the top management level, knowledge should be managed as a resource just like others (e.g. financial resources). Someone would have to ensure that the above-mentioned five core KM processes are duly executed. In terms of functional responsibility, KM often falls on the shoulders of either the HRM/Training & Development department or the IT/Systems department. While having an integrated technology infrastructure supporting and facilitating learning and KM is one of the critical success factors, information technology is at best an enabler. However, this certainly points out the importance that HRM/T&D people have to team up or otherwise interface closely with the IT function of the organisation.

## ***System Integrity and Review***

Two basic cultural values form the backbone of the KM system of an organisation: the belief in continuous learning and the appreciation towards the value of sharing, both stretching from an individual to a work unit to the total organisation (and even beyond the organisation, e.g. in sharing with other organisations in the same trade).

When information is rarely shared; when training is rarely supported; and when employees are rewarded for encouraging secrecy, the system is not working.

KM directly contributes towards corporate innovation and total quality



management. However, purely holding knowledge does not help an organisation to achieve anything. Knowledge needs to be turned into/incorporated into products, services, innovations and process improvements to get its value realised. A balance between the collection and organisation of existing knowledge with the creation and learning of new knowledge needs to be maintained. Over-dosage of formalised knowledge sharing can be stifling. It is better to focus on supporting group interactions than structuring knowledge into databases and documents. Too much measurement (e.g. evaluating the knowledge gained by staff after a training programme) can demoralise your staff.

Besides concentrating on the core KM processes, an organisation has to ensure that other systems couple well with it. An important area is HRM. From day-to-day supervision to the corporate performance management (appraisal, remuneration, training & development), an organisation's systems and practices have to be duly adjusted to facilitate, encourage, recognise and reward behaviours that support and contribute towards KM. The common saying that "what's measured (and rewarded) will be practiced" is most pertinent in management.

It is always a good practice to provide training to staff. However it is important that the value of knowledge sharing be internalised in every member of the organisation. All superiors in the organisation should be aware of and accept the concept that training and development of one's subordinates is everyone's responsibility, not a task to be left solely for the T&D or HRM people. Line managers should be actively involved in staff training sharing their wisdom with other colleagues, be they subordinates within their work units or colleagues from other departments. The Performance Management System should provide points for knowledge sharing and dissemination.

From time to time, it is important that the KM and other supporting systems be checked and adjustment made. The KM system should be reviewed to ensure that the system components and practices are still best contributing to the business processes of the organisation. As KM is still a fast evolving sphere, to ensure that the organisation is benefiting from the experiences of other organisations in the social welfare trade and outside and not unnecessarily 're-inventing the wheel', at least once a year the KM practices should be evaluated.



## ***Feedback and Communications***

Under the current operating scenario (the LSG, SQS, increasingly demanding customers and the escalating public expectations etc.) staff of NGOs not only have to create constantly new improved practices but also to find new ways of keeping abreast of the changes and learning. Each work unit has to develop locally for itself the needed solutions by using all the available knowledge, models and tools. Collaborative work for learning and development is prerequisite. What happened in local hospital wards under the attack of SARS serves as good example of how critical that staff learned in the workplace and shared their learning on the diagnosis and curing of this new viral disease, and shared it quickly within their hospitals and across the whole medical profession (to curb life losses).

To start off creating the culture of continuous learning and sharing, top management should share its vision of tomorrow with its staff in language and terms that people at different organisational levels can understand, and stimulate them to challenge it, to change it and to contribute to it. Managers of NGOs have the responsibility to integrate work and learning and inspire all its subordinates and colleagues to seek quality, excellence and continuous improvement in both.

Formal internal communication channels should also be actively made use of in promoting knowledge sharing. Staff newsletters, quality circles, intranets, organisational public relations material, staff training news, etc. are important communication means. Interest groups and 'chat rooms' on organisation's intranet should be encouraged (within reason of course). Managers themselves can act as role models in showing to staff of their buy-ins and active participation in sharing knowledge thereby influencing subordinates to follow suit. Active involvement and contribution in supporting colleagues' personal and career development (e.g. acting as contributing trainers, mentors and coaches) also helps promote the culture of continuous learning.

As much as possible, managers must help their staff understand what types of knowledge is encouraged and supported by the organisation. No one should be expected to learn about cooking for example when such knowledge would not add value to the job or to the organisation. Likewise, we cannot be too restrictive as often innovations come from totally unrelated knowledge sources that get linked together at an opportune time.



## ***System Linkages***

The basic reason for KM is that by creating and sharing knowledge, the organisation is building the competencies that are necessary to achieve social and economic results. Adopting a stakeholders' focus, how KM can contribute towards, thus the linkages with, the various key performance areas can be summarised below:

- o *Financial*: Knowledge effort may result in direct cost savings or increase in revenues.
- o *Innovation*: By effectively developing, sharing and applying knowledge, companies are better able to quickly develop and introduce new products and services.
- o *Processes*: In most processes knowledge is or should be embedded. Examples include, but are not limited to: Product Development, Marketing and Sales, Customer Service, Procurement. KM can help to make processes more efficient and effective.
- o *Clients*: Knowledge can help to create customer capital. Better understanding of the customers and their needs will help to optimise the product and service offerings. Furthermore, sharing knowledge with clients helps to build customer intimacy.
- o *Human (employees)*: Many employees can be considered as knowledge workers. Effective KM means for them creating an organisation in which they can develop and use their talents. It provides an environment where it is fun to work and where they can learn and share their knowledge, know-how, and experience with their colleagues, partners and clients. It makes that the human capital of the organisation can effectively be developed.

One point should be noted, however, KM is a means, and not a goal in itself. The link of KM to business value creation/addition must be established, understood and internalised in everyone's head. Otherwise people, including Directors of the Board, will always remain dependent on beliefs and perceptions, and during difficult periods (e.g. as it approaches 2006 when the TOG expires for some NGOs) investment and effort might not come forth and continuous development in KM might stop.

## ***Recommended Steps for Closing the Gaps***

Implementing KM in an organisation usually demands change in the culture of the organisation. For this to occur the following actions have to be taken:

1. Clarify within the Board and with the CE where the organisation stands and where they like the organisation to reach in relation to the time frame. From there a strategy on KM/organisational learning should be developed and agreed with the agency's management team.
2. Take stock of the current KM/learning practices within the organisation and gauge the understanding and attitude of staff in the organisation so you know where you are.
3. Benchmark the organisation's current level with best practice references and explore the possibilities in order to produce a roadmap and work plan for KM.
4. It is advisable to appoint a member of the Board as 'champion of KM/organisational learning'. The CE can also take up this role. Having a Board Director to oversee this initiative has the benefit of signalling to all staff members the level of importance that the organisation is placing upon this cause. And, being one that is not directly involved in overseeing any particular operation or function of the agency, the Board Director can play a more impartial role.
5. Programmes are drawn up and implemented to develop the habit of learning in all employees. Resources are earmarked for supporting the training and development programmes. At the individual level, with assistance from the HRM staff, each staff member should develop a personal learning/development plan (PLP/PDP) and keep a learning logbook. Training and development staff will help individual staff members to execute these plans. Everyone should be encouraged to volunteer as a guide or mentor for others. Involve managers at all levels to act as expertise providers, part-time in-house trainers/guest speakers, mentors or coaches.
6. Behaviours people exhibit and contributions that people make should constitute a key part in the performance appraisal of individual employees. The organisation's performance management system will need to be modified to taken into account of KM practices and reward achievements in this area.



# **Good Practices in Nurturing Innovation**

## ***Definitions***

Nurturing innovation concerns with creating a culture that embraces creativity and entrepreneurship, supporting staff to learn new skills and ultimately, creating an environment that encourages the employees to find ways of serving customers faster, better and cheaper. Innovation involves a set of processes, including idea development, idea screening, concept development and testing, market analysis and test marketing. Innovation is much more than just a new idea; it is a workable new idea that adds value to the organisation.

## ***Working Terms***

***Innovation:*** The ability to turn creative ideas into enhancements of existing products/services or the generation of new products/services is innovation and this differs from creativity. Innovation is the successful implementation of creativity.

## ***Purpose and Implication of Nurturing Innovation***

In this fast changing environment, it is important that NGO can innovate its services to meet customers' requirements which are changing all the time. In the increasingly competitive and crowded social service sector in Hong Kong, the ability of an NGO to innovate is key for its survival. Failure to render services that meet customers' needs means that the NGO will not be able to retain its customers and generate surplus. The successful NGO is one that is able to deliver unique services and products over its competitors. NGOs exist to serve the community and therefore, their services should be delivered to the satisfaction of the general public.

To create a successful new product or service, the NGO must be able to tailor this new item to what the service users need or would be needing; and by so doing distinguish itself from what have been offered before. The need for a new product/service is usually driven by customers' demand. Therefore, it is important that the organisation conduct continuous service research to solicit

new ideas, such as through service user surveys. Market intelligence is important. The organisation must be able to collect information from other industries or from the same sector outside Hong Kong and be able to synthesize the information and create innovations.

## ***System Features***

As a result of the fast changing environment, intensified competition, advanced technology and automation, management needs to be flexible and creative enough to capture the opportunities emerged from these changes. Organisations must be adaptive and be ready to offer new products/services and ideas to the market.

Managing innovation in an organisation involves a focus on these dimensions:

- Establishing a culture for innovation and continuous learning;
- Setting in a direction and displaying leadership in innovation;
- Providing the structure and capacity for new product and service development; and
- Building the capability of the individuals involved.

No organisation finds it easy to mobilise itself for change and innovation. To be innovative, the NGO must make sure that a culture of innovation is created and sustained. This would lie heavily on the shoulders of management to maintain such a culture. Following from the culture of nurturing innovation, an organisation would go through a cycle for product and service development. This cycle begins with the concept and finally to acceptance. Typically, it takes more than a year, sometimes five or more, for a new service to be introduced. The more sophisticated the service or product, the longer will be the development process. Once the item has passed the trial stage, marketing, promotion, and delivery take over and the item is moved out of the incubation stage. The entire chain is dependent on the capability of the individuals and the authority that have allotted to them to be innovative.

### **Establishing a culture for innovation and continuous learning**

A culture for change and innovation requires an organisation that encourages the development of new initiatives. Staff welcome change and everyone contributes to generate and brainstorm new and more refined ideas. These



practices are built into the everyday working of the agency. There is an atmosphere that fosters the continual search for new ways to define problems. Employees are encouraged to learn outside of their job and the agency provides sufficient opportunity for them to learn from other non-competing agencies through mutual secondment programs. The agency not only talks about developing the individuals, but put significant resources behind the speech.

Some organisations have purposely formed work areas dedicated for new ideas, such as fitting in a colourful work area with reference books for inspiration. On the extreme, advertising agencies even install basketball courts in their offices to cultivate the innovative spirit. The degree and support through physical space is one that should be judged by the leadership.

### **Setting in a direction and displaying leadership in innovation**

The organisation cannot be an innovative organisation by sheer spirit alone. Innovation must start at the top, at the Board of Directors and at the level of the CEO. Resources, authority, priority, and attention must be given to the focus on bringing about innovative products and services within a specified timeframe. The leadership can help by giving respect to those who are innovative and technically competent. Leadership would be encouraging employees to look outward for ideas, making links with the outside world through involvement in consultancies, trade associations, service recipients, suppliers, universities, and any other party where there is a win-win opportunity. Leadership is showing direction for innovation and the employees will be able to sense this and follow the direction of the agency, only if leadership is present.

Management behaviour reinforces a culture of encouraging new initiatives and mindset. Recruiting staff with different personality types and cultural backgrounds can add different perspectives for an organisation and enhance the possibility of cross-fertilisation. Encouraging staff to brainstorm, take risks, and make mistakes are within the realm of the leadership.

Mistake is an inherent and natural part of the creative process. Managing an innovative organisation requires a higher degree of tolerance, that is, leaders must be able to tolerate mistakes and realise that not all creative initiatives will be successful. Innovators should not be punished. In general, management should try to achieve a balance of control in the innovative process, with as little interference as possible.



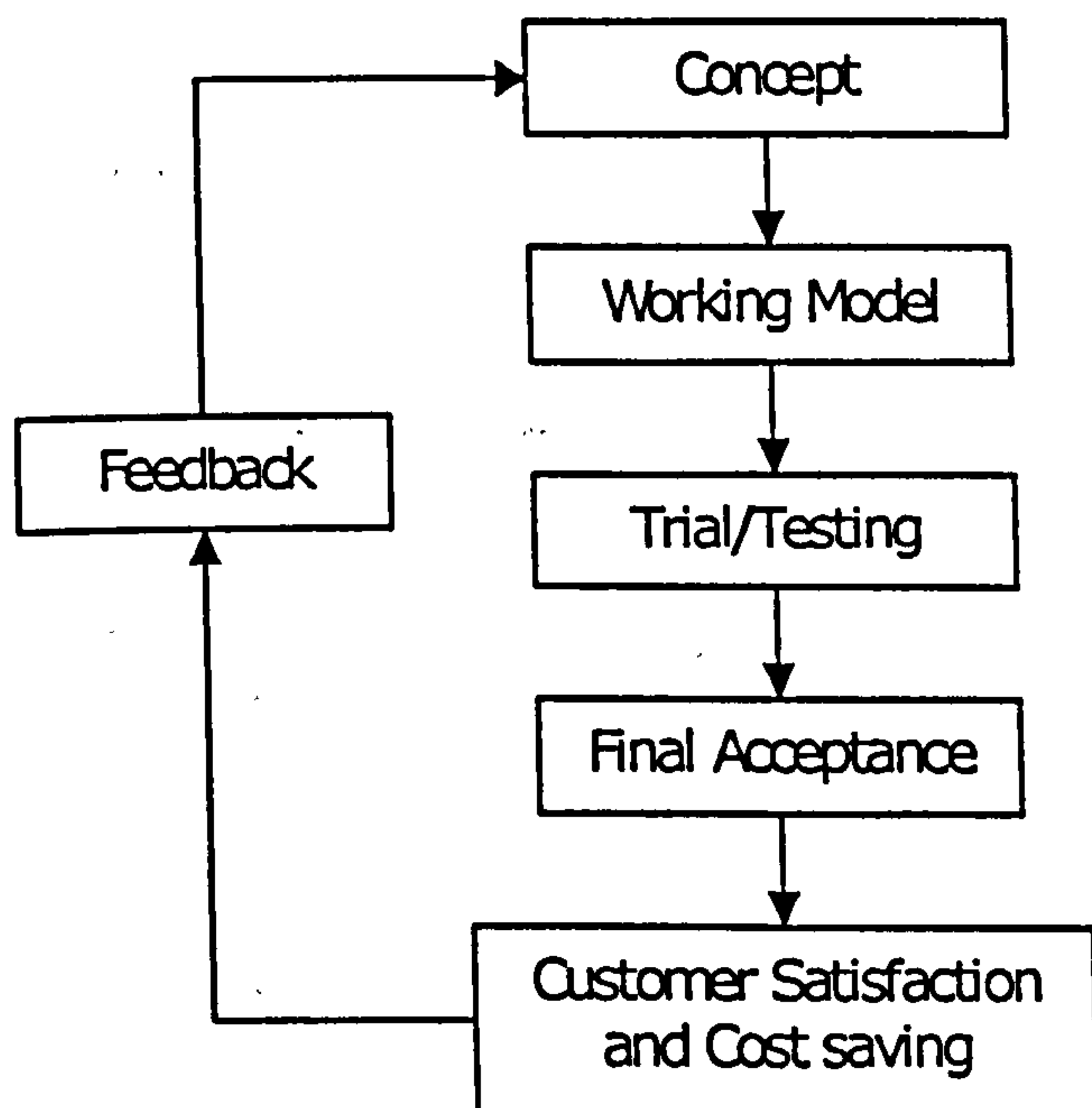
## **Providing the structure and capacity for new product and service development**

An innovative organisation tends to be decentralised and informal, as this encourages the creative energy to flow. NGOs conversely tend to be centralised and formal. Although this is not true for all cases, the structure was set in such format so as to be able to process services more efficiently, like a factory. To move an organisation from a factory mindset to a market driven NGO does require a good deal of commitment and resources. The organisational structure of innovative organisations tends to be flat, based more on teamwork rather than hierarchical control. This would support the organisation to offer an environment that nurtures and promotes creative behaviours in the workplace. This in turn, requires the commitment from the Board and top management. It is only when management supports a working philosophy that innovation is an integral part of their strategy and encourages everyone to work creatively, will the organisation become an innovative organisation.

An organisation structure is purposely designed to follow its function. As such, an innovative NGO would probably have a unit responsible and dedicated for the creation of new products and services. It may be a person or a unit or even a product development department, as long as it would be the one which focuses on improving existing or generating new products/services. While not all organisations are large enough to have a separate department on product development, these organisations can network with other organisations or the Social Welfare Department (SWD) to jointly develop such products. Financial resource is the backbone of this system. The organisation should have budgeted a portion of its financial resources for managing and nurturing innovation. The funds can be used on research and development of new products or services and providing training to staff etc. Reason would suggest that unless funding is sufficient, new products and services will not come about. When the current NGOs barely can breakeven, funding for new products and services will probably be in short supply. Without sufficient resources, an organisation cannot further develop its ideas into reality. Therefore, good practices would suggest that the NGO places some amount on the side for investing in its future, and at the same time, maintains a network with sponsors such that it would have the necessary fund for product development.

Developing the product but neglecting promoting the product will not work. There should also be a budget for marketing the products/services; otherwise, even if there is a new product or service, the market would have no knowledge about it. Marketing strategies should be developed to promote the new products/services.





Ways on how the product/service is marketed and promoted can effectively influence the turnover and growth of the organisation. Besides, a successful marketing process motivates employees to be more responsive to customers and become more knowledgeable about the agency's own products/services. The organisation should also apply for legal patents for its products whenever possible; and for service items, apply for service branding as patents cannot be offered. Coupled with a successful marketing plan, the organisation can further develop its own brand and build higher levels of customer loyalty.

### **Building the capability of the individuals involved**

An organisation needs creative people to generate creative initiatives. To attract these innovative people, the reputation of an organisation as a creative organisation is extremely important. Creative individuals prosper under a creative environment and their competencies need to be strengthened. Generally, most of the larger and reputable organisations do tend to provide better packages, training and development, to retain good workers. Smaller ones can overcome this by allowing staff to actively participate in product and service refinements. Besides, there should be a system to reward innovators, either financially or non-financially e.g. verbal recognition, 'employee of the month' etc. so as to visibly support innovation. By giving incentives to employees, they will be much more motivated to exercise their creativity.

## ***Accountability***

In an innovative organisation, everyone has the responsibility to generate creative initiatives to move the organisation to a higher level. To make

everyone accepts his/her responsibility in innovation lies heavily on the culture and environment in which staff are working, since to think and work creatively requires the initiatives of the individuals themselves. Staff have to be self-driven. Although an innovative culture takes time to develop, it is extremely important that the management, the CE and the Board take the responsibility to develop such culture and behave accordingly to reinforce it.

Organisations that cannot offer innovative products/services nor do things in new and more acceptable ways to cope with the changing environment will eventually fade out. New ideas are usually seeded from within the organisation, from customers, from staff, and from management. However, all ideas can only be made real by the commitment of resources. Such ideas are submitted to the Board for final acceptance and approval. Therefore, ultimately, the Board of Directors would be held accountable for the failure of maintaining an innovative organisation because the agency's sustainability and viability would be undermined. The CE, on the other hand, should be held accountable for nurturing the environment such that new projects can take place. Project ownership ultimately would fall on the project manager who has been tasked to develop and deliver this new product or service within a given timeframe.

The Chief Executive and management will be responsible for assessing the day-to-day working environment to see if the system has been working effectively. The Chief Executive should also be accountable for the failure to put new ideas into a proper course of development. There is no use in having lots of ideas that cannot be turned into a real product or service.

Employees, especially the front-line staff, have the responsibility to listen to the customers since they are the ones who have close contact with the customers. They should collect feedback from the customers and reflect them to their management. They should be held accountable if they fail to respond to customers' requests.

While the outcome and success of any new product or service is uncertain, good practices suggest that the new product can only be considered an innovation when it has been accepted by the market.

## ***System Integrity and Review***

Is the system of nurturing innovation working? We understand that all systems



must be continually checked and maintained. If there is no new product or service launched by the agency within the last three years, we can be pretty certain that management has not placed a high priority on innovation.

When comparing with others in the industry, does the organisation always lag behind others in launching new products/services? Or is it well recognised as an innovative leader?

Obviously, the degree of customer dissatisfaction with the existing service and product portfolio would be an important clue; and the number of complaints would highlight this. With the launch of new products/services, customers/service recipients should be happier and more satisfied than before. This information can be obtained from customer surveys and revealed from the turnover figures.

If the system is working, staff should be motivated to generate even more new ideas. The number of new ideas generated within one year would be an effective indicator. The number of new ideas contributed can be set as one of the objectives of staff performance evaluation and development. Opinions gathered from the staff themselves and from the supervisors to some degree also can highlight to management whether the system has been working or not.

Creativity can be taught, to some extent. Creativity training should focus on removing the barriers people have built up over time to being creative and innovative. Edward de Bono has designed a number of structured creativity programs for this. Creativity training is more of an awakening process than teaching the staff about creativity. Staff are encouraged to learn to use their inborn ability more fully.

It is not easy to review the effectiveness of the system as there is no ruler or scale for measuring the mindset of employees. However, management can review the number and quality of ideas to ensure that employees are working towards the vision of the organisation and that the ideas can in some way contribute towards attaining the mission.

## ***Feedback and Communication***

What is the current status? How many new ideas have been accepted and

implemented? Toyota for example has one of the highest numbers of employees generating new ideas and putting them into force. Quality circles, new ideas awards, and higher level of customer satisfactions are all effective feedback measures. Measuring the degree of innovation is difficult and this is best left to the service recipients.

Quality circle is an effective tool to measure the current status of the situation. Staff have to fill in a form for each new idea that they generate. On an annual basis or more frequently, management can compare the number of ideas that they have come up with the number of ideas that have been converted into practice. Management can then have a view of the effectiveness of the system.

Management have to communicate to their staff that they want to create an atmosphere that staff are motivated to think out of their feet. To do so, the organisation should:

- Have a clear vision of the organisation of the future. Organisations with vision are better able to appreciate and use people's creative talents.
- Allow free flow of information to exist across all organisational boundaries so that staff are aware of what is going on outside of their own immediate jobs.
- Hold peer group reviews to seek opinions from staff how they feel about the general environment, culture and attitudes of co-workers in the organisation to ensure that they are aware of and enjoy such culture.

There should also be channel for collecting feedback from staff. Staff survey provides this channel. To be better informed of the marketplace, management should meet with front-line staff monthly to better understand the customers and to solicit innovative ideas from staff on an on-going basis. Of course, the best way is to ask the customers directly, and forming focus groups and conducting customer satisfaction survey will do just that.

## ***System Linkages***

Nurturing innovation should be linked with other management systems. Innovation involves:

- Strategy formulation. Innovation should be an integral part of an



organisation's strategy and cannot be isolated from the operational systems.

- Change management as the current way of operation, culture and existing products/services will have to be changed towards one of innovation and flexibility.
- Knowledge management as innovation will create new knowledge that has to be documented, codified and shared.
- Financial management which involves the budget and allocation of resources to support innovation.
- Service quality management as the innovated products/services have to meet customers' expectation and the requirement of SQS.
- Risk management. All innovations involve errors and mistakes and the concern is not on how to avoid these errors and mistakes but to take the risks and manage them.

Innovation is also linked to the external environment. All organisations are operating in a fast changing environment. The products, service, business model and operating system of an organisation have to change to cope with the changing external environment. From the changing process, new ways of thinking, new business models, new products and services will subsequently emerge.

### ***Recommended Steps for Closing the Gaps***

Encouraging innovation in an organisation usually demands change in the culture and commitments from management. The following steps highlight the sequence for their introduction.

1. Establish a clear vision for the organisation and put innovation as one of the values in the organisational strategy.
2. Communicate the mission and how innovation would help bring about this to staff.
3. Incorporate innovation into job descriptions. This is to remind them of their responsibilities to help to manage innovation. Staff cannot escape

from the expectation of being innovative because it is not stated in the job descriptions.

4. Link innovation to other management systems.
5. Establish channels and mechanisms to encourage free flow of information across the agency. Create a working environment that could give incentive to staff, such as an inspiration corner.
6. Involve staff to generate creative initiatives and use their ideas as far as realistically and practically possible.
7. Reinforce the new behaviour. The Chief Executive and the senior management team would need to behave to showcase innovation leadership.
8. Promote and reward the new behaviour. Individuals who demonstrate the new behaviours under the new culture are openly recognised and rewarded - either financially or non-financially.
9. Obtain more frequent feedback from staff to continuously being informed of the current market situation - customers' expectation, customers' taste, customers' acceptance for their new products/services etc.
10. Conduct customer survey and focus groups to obtain direct feedback from customers for improvement.



# Good Practices in Risk Management

## *Definitions*

Managing risk is system of processes. These processes can be seen as a series of measures taken to identify, control and avoid the possible unforeseeable threats that might bring an enormous adverse impact to a system without any early notification. Underlying the risk measures of an organisation, it is always difficult to completely identify and cover the full extent of risks. While setting a perfect network to embrace any upcoming risks is almost impossible, an effective risk management system enables an organisation to proactively review and anticipate the range of potential risk exposures as well as to avoid and mitigate risks. In summary, the risk management process is about making decisions.

Professor Donald A. Marchand<sup>10</sup> and his faulty team from the International Institute for Management Development have written a book on guiding managers to create business value and minimise risks. According to Donald, the whole process of risk management should be divided into 3 areas: risk analysis, risk monitoring & control, risk avoidance & mitigation. Risk analysis includes the identification of risks, breaking them into different categories such as strategic, financial, operational, commercial, technical and environmental. However, different organisations operate in different business nature, thus it is important for each agency to build up its own list of risk categories that could most reveal its own business environment.

## *Working Terms*

**Risks:** The possible unforeseeable events that might bring an enormous adverse impact to a system due to a lack of early notification.

**Risk analysis:** A systematic process of risk identification and assessment.

**Risk monitoring/control:** The process of reviewing risk control system to ensure the system has been implemented effectively and reflects the current situation of the organisation. It requires the continuous input from the Board, the management and staff at all levels to provide

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<sup>10</sup> Marchand, Donald A., *Competing With Environment*, John Wiley & Sons Ltd., 2000

feedback and to enable review of outcomes.

**Risk avoidance/mitigation:** The process of tracking risks and taking actions to reduce or remove risks that the organisation is facing. This can be done by risk sharing, e.g. by joint venture, insurance coverage or risk shifting, or by contractual agreement such that part of the risk remains with the customers.

**Risk management system:** Formulation of policies and control procedures for management to follow in order to proactively manage risk exposures. It mainly concerns with the segregation of responsibilities within an organisation.

**Risk management committee:** Risk management team that usually composes of the Board and management. Usually, the Board would define the risk boundary and areas for management, and the management would follow and carry out the implementation of risk analysis, risk monitoring and control and to build up all control facilities to minimise the causes and costs of risks. In the absence of the risk management committee, an audit committee typically would take up this role.

## ***Purpose and Implication of the System***

The purpose of the formulation of risk management strategies is to manage risks such that the organisation can be and remain an on-going concern. First and foremost this is undertaken to achieve organisational objectives, however defined through the Strategy Formulation and Implementation System.

This component serves as a catch-up for the management maturity model. Risks are often managed through other systems. The purpose of explicitly bringing out this system is to raise the attention towards and focus in managing risks which have been some of the key weaknesses in NGO governance and management.



The realm and degree of control put in an organisation is based on the type of risks it faces. Control should be kept to a minimum in order to provide maximum flexibility. Only critical control, over key risks should be mandated. This means that unless risks have been properly identified, the proper set of control may not be appropriate. This is extremely important.

Several key items to keep in mind:

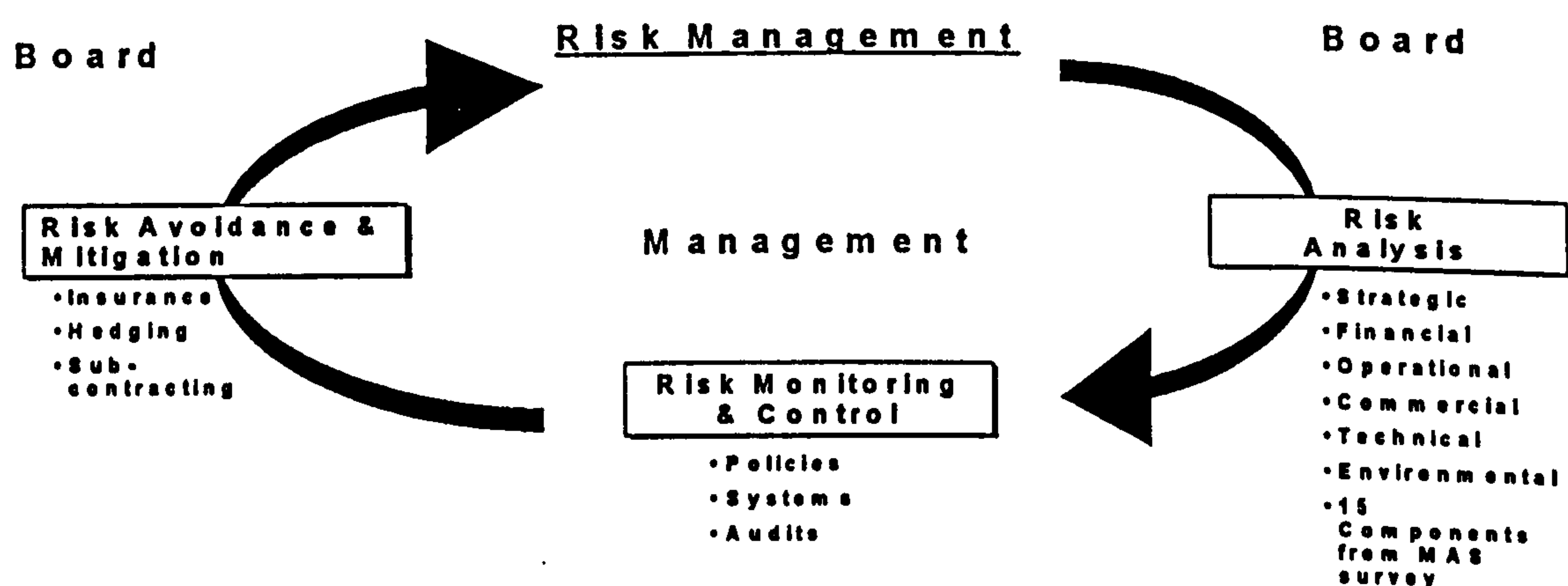
- Leading NGOs manage their risks proactively. Risks should be proactively managed, not reactively managed.
- The process of risk management planning often far out-weighs the plan itself. Communication and dialogue is an integral and essential part of the planning process. Everyone is clear on what are the key risks and their realm of authority in handling them when they do occur.
- The primary benefit of risk management formulation is often the process itself; it is a structured way of risk analysis, identification of potential exposure, monitoring and control procedures, involving a number of people in thinking about all the unexpected exposures that could materially affect an organisation.

## ***System Features***

Because risk management is more a series of processes, we will have to identify the elements that make up this system. The process addresses two fundamental questions: have risks been identified? And if so, how should they be mitigated. Risk identification involves breaking them into different categories such as strategic, financial, operational, commercial, technical and environmental. Risk assessment is the process of quantifying the impact of risks on the organisation and involves mapping the risks in each category in terms of likely frequency and potential impact.

The existence of a risk management plan, a business continuity plan, a project evaluation sheet with risks exposure identified, are some of the features that management should develop.

The process of risk management system is developed through a bottom-up approach, followed by a top-down approach. The process of involvement builds consensus and strengthens buy-in. The bottom-up approach begins whereby the CE asks his/her direct report to contribute to the process. Each service centre and department provides the CE with key information about risks, and the CE and/or the designated senior management consolidates and drafts the first strategic risk management plan. This is discussed and agreed at the Board of Directors level and becomes the plan, which is then distributed to all service centres, confirming the top-down, cyclical approach:



Some organisations would undertake this bottom-up, top-down approach in several iterations. The efficient agency does this once.

A risk management strategy formulation system operating at a best practice level is one that is:

- Defined with all key risks identified and assessed;
- Implemented, according to an agreed blueprint;
- communicated clearly to the management team whereby everyone knows and accepts his/her responsibility;
- monitored for exceptions on a regular if not quarterly basis by the Board;
- linked to the overall risk management plan and to the strategic plan; and
- co-ordinated to the goals of the department and service centres.

In developing the risk management plan, which is one key component within the strategic plan that covers 3 years or more, staff members are asked to input into a draft plan, then this is presented to senior management for feedback and



the development of the second draft. Designated individuals with titles defined will be responsible for specific assignments of risk monitoring and control. The process is similar to that of strategy formulation. The Chief Executive takes the second draft and seeks the Board's approval, at which time this becomes the basis for the plan.

## ***Accountability***

Accountability is a critical element in an agency's risk management system and its process should be carried out mainly by the Chief Executive and his/her senior management team and confirmed by the Board. However, at each level of the organisation there are individuals responsible for specific assignments of risk management, complementing their specific job duties.

Risk Management systems concern the segregation of responsibilities within an organisation in order to proactively manage risk exposures. Managing risks is ultimately the responsibility of the Board of Directors. But in reality, this is delegated in varying degree to the Audit Committee, Finance Committee, the Auditor, and the Chief Executive. While the Board is ultimately responsible for the existence and soundness of the risk management system, the Committees of the Board serve to report substantial deviation from plans that have been agreed by the Board of Directors.

Because the delegation is so diverse, it is extremely important the Board clarifies responsibilities and accountability for this system. Various levels of staff and management in an organisation should have specific responsibilities with respect to risk management. A coordinated discussion among the Board members, the Chief Executive (CE), and the management team bring about the best means of proactively managing risks while still achieving its objectives.

The Chief Executive has a heavier responsibility to see that the risk management plan has been developed and can be achieved. Often the plans and targets would become a part of the overall performance target for the CE. This logic continues downward onto the head of each service centre. Consequently, each direct report is responsible for the delivery of his/her risk management tasks for his/her department.

- o *To be successful, a risk management planning process must have the strong support of top-level staff, key trustees, and others of influence*



in the organisation.

- The risk analysis process could be facilitated with the support of management consultants; the CE, his/her direct reports, and the Board of Directors must be involved so that the decisions reached are their own.

Effectively, the organisation can incorporate a matrix analysis to consider the assignments of risk management responsibilities into different levels of the organisation. A sample of the matrix of accountability is as follows:

**Risks vs. Accountability**

**Types of Risks**

	Environmental & Legal	Strategic	Financial	Operational	Social Entrepreneurial	Technical
Board	✓	✓	✓			
Committees	✓	✓	✓	✓	✓	
Chief Executive	✓	✓	✓	✓	✓	
Senior Management (by functions) <sup>1</sup>			✓	✓	✓	✓
Operations Executives <sup>1</sup>	✓		✓	✓	✓	✓
Frontline Workers	✓		✓	✓	✓	✓

Note: <sup>1</sup>. Certain operational level risks could have impact on the strategic level; proper reporting line should be in place to enable timely communication on the matters to the next level of management.

An internal auditor also can play a useful role. An organisation may consider to incorporate the function of Internal Control & Audit to assist in monitoring and reviewing internal control systems in order to better safeguard the overall risk monitoring and control. Depending on the level of resources available, some organisations would employ an internal auditor to focus on reviewing internal control procedures and to ensure that they are effective. In some of the organisations, this function is outsourced to external consultants to provide certain assurance on the effectiveness of its internal control system.



## ***System Integrity and Review***

As the process of risk management system eventually could produce corresponding conflicts and anxiety; no one can completely control the outcome of its development process and this can cause tensions among management and staff. It is important that the system be checked and maintained.

Everybody has a different view of risks and an open discussion will generate disagreement and conflict. This is healthy and must not be discouraged. As new individuals join the Board and management, they will have to learn about the risks level assumed by the agency. Often an open discussion is a much better way of expressing one's beliefs than keeping silent and assuming everyone else understands and accepts one's way of thinking and risk exposure and acceptance. Nevertheless, this frustrated feeling is further exacerbated with a frustration over the amount of time required in the risk management process as oftentimes roles and responsibilities in the process itself are unclear.

Good practices stipulate a clear role for everyone in the planning process; and that the expectations and results are transparent. For the latter, documentation of key risk avoidance and mitigation procedures is very critical for a risk management system where employees are able to refer to such documentations as useful guidelines when unexpected situations arise and affect its day-to-day operations. Risk is one area that cannot be kept silent.

From time to time, the risk management system should be evaluated independently by outsiders such as independent auditors and management consultants at least once every three to five years to ascertain its robustness and its applicability to other operating systems. The desire for consensus almost always impedes the planning process. Although it is important to hear everyone's views, it is not advantageous to incorporate every minority opinion into a plan.

It is a good practice to provide training to staff. Not only will it help them to understand the organisation's concern, by involving them they would also become part of the risk management system. The interactive risk control system allows some very useful feedback to be transmitted more effectively to the Board or management.

An organisation should build up procedures for taking corrective actions for dealing with problems resulting from incidents and learning from such incidents



to avoid any possible threats and risks to recur in the future; this would make a much stronger net than waiting for their arrival.

Most importantly, there must be a culture in place for risk awareness; without it, a risk management system has little chance of success.

## ***Feedback and Communications***

The risk management process with specific functions of monitoring and control should be integral to the on-going management of the organisation but formal review of the system should be carried out periodically with the scenarios reviewed each time.

- The risk management system as a part of the strategic plan is reviewed and agreed at the first fiscal meeting of the Board of Directors.
- Having set the framework for a direction in the next three years, the Board then agrees and confirms the risk management system as presented by the CE as well. Once agreed, the documentation for the risk management system is put aside as a reference document for the year.
- Reports on any incidents or near-misses on an on-going basis are made formally by the CE and the senior management team on a monthly or at least a quarterly basis. These reports should include a summary showing risk avoidance and mitigation activities, where they occur and action taken or recommended.
- Related management reports should be presented verbally to the Chief Executive and supported by formal documentation in an agreed format for ease of perusal.
- Monthly meeting should be held with staff to obtain feedback and update them on the current risks the organisation is facing and the risk management process. The top management should determine what staff need to know, when they need to know and how will they be informed.



- New projects are presented to the Board with a project sheet similar to the attached, with key potential risks identified and subject to evaluation.

## ***System Linkages***

The risk management planning, documentation of procedures and the related incident/management reports serve as the overall blueprint for the risk management guidelines in the overall operations of the agency. Once the risk management system is agreed, it is subsequently integrated with the overall strategic plan.

Department goals are then set through this top-down approach and the plans for Human Resources, Information Services, Operations, Finance and Supplies, are linked into this risk management system. What tie these plans together are the resources - financial, human, and other constraints imposed on the agency.

Further, the agency's FSA and SPMS should have a direct linkage between the specific risk exposures and the targets and processes as defined in the strategic and annual plans. Linkages should be evaluated in terms of:

- Direct loss of money (cash or credit)
- Breach of legislation
- Loss of reputation/goodwill
- Endangering of staff or customers
- Breach of confidence
- Loss of service opportunities
- Reduction in service operation efficiency
- Interruption of service activity

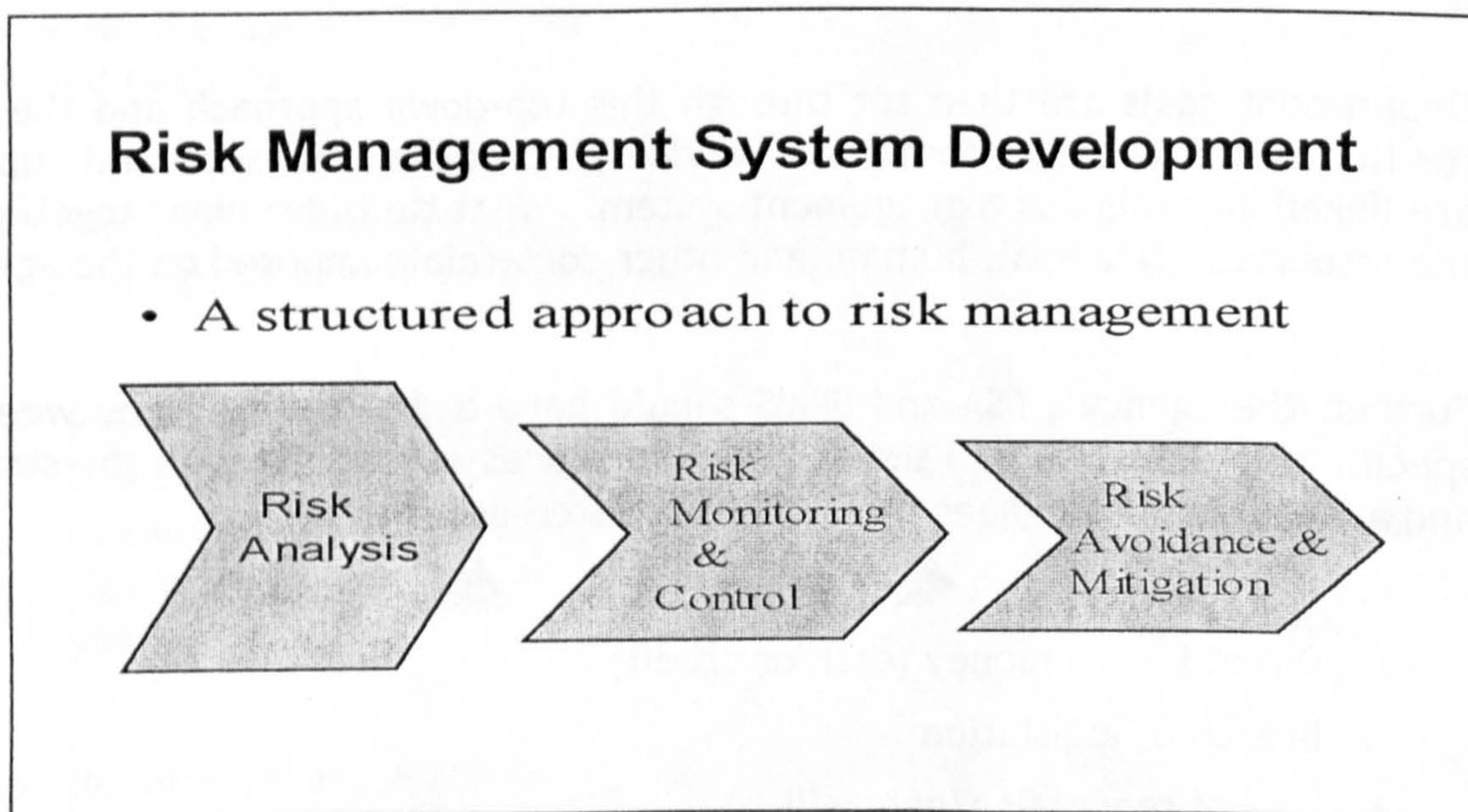
## ***Recommended Steps for Closing the Gaps***

The process of formulating a risk management system involves three main activities: Risk Analysis, Risk Monitoring & Control and Risk Avoidance and



## Mitigation.

First of all in closing the gaps, it is again emphasised that a risk management committee should be formed to meet regularly to focus on continuous development and improvement of such system. This can be an ad hoc committee or with such roles delegated to the Audit Committee. The committee should be composed of members of the Board of Directors and senior management who will together provide leadership on the development processes of a risk management system. Subordinates will be encouraged to participate actively in the process as a number of them are frontline workers who would have the best intelligence about the range and type of risks that they are facing in day-to-day activities.



### Risk Analysis

Having setup a risk management team in the first place, both the Board members and top management are involved in the team and should decide on the responsibility of performing the initial task of risk analysis and risk assessment. A business continuity plan is sometimes produced.

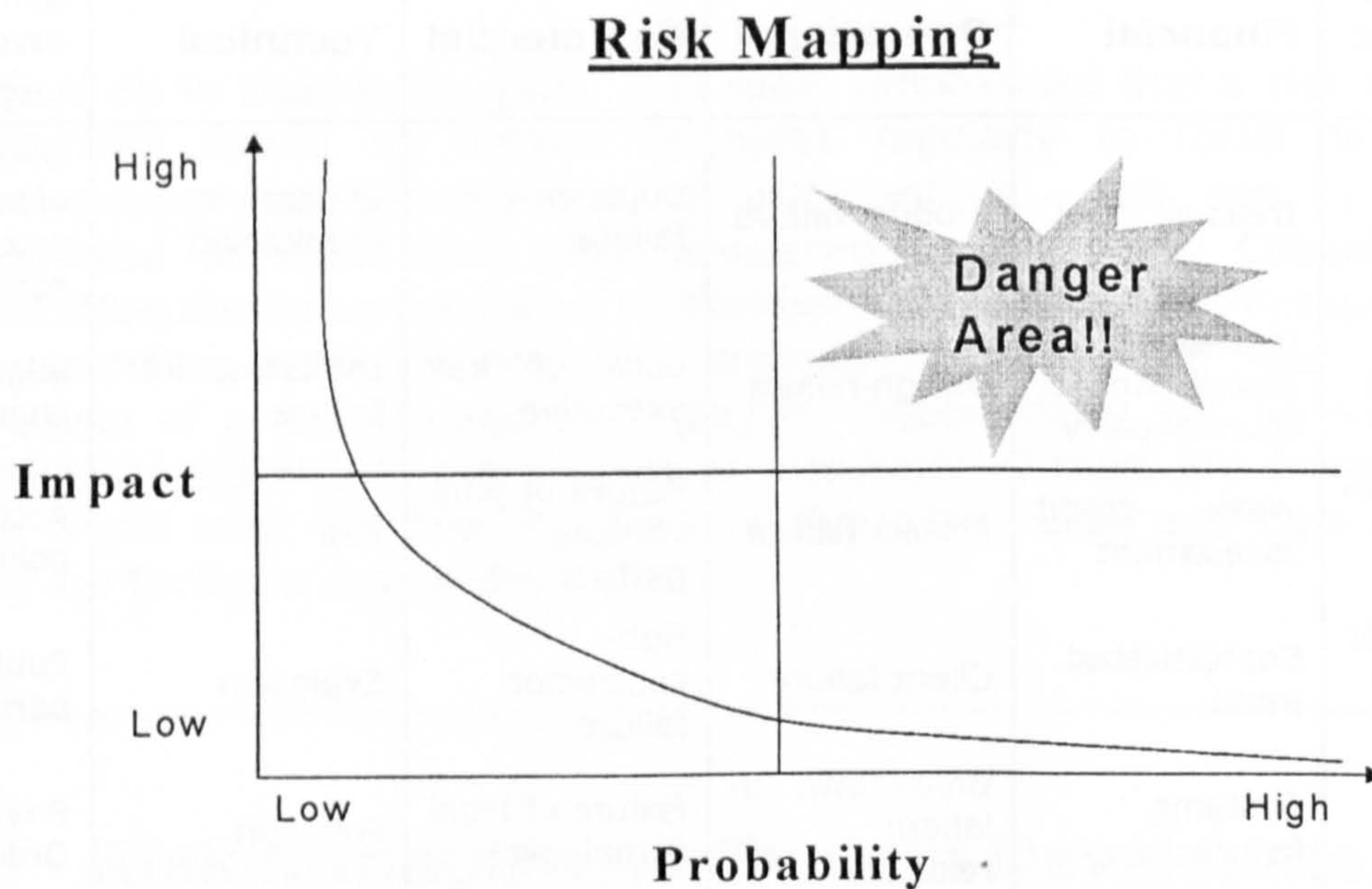
A comprehensive risk analysis for an organisation is the first critical step to ensure that a comprehensive range of risk exposures is identified, explored and reviewed. Such analysis can be organised with a matrix led by the functional as well as specific internal and external concerns:



Strategic	Financial	Operational	Commercial	Technical	Environmental and Legal
Poor Marketing Strategy	Treasury risks	Product failure	Supplier failure	Equipment breakdown	Green pressure group activity
Poor acquisition strategy	Inadequate assessment of counter-party	Design failure	Loss of key executive	Infrastructure failure	Regulatory change
Changes in consumer behaviour	Weak credit assessment	Project failure	Failure of joint venture partner	Fire	Accidental pollution
Political or regulatory change	Sophisticated fraud	Client failure	Sub-contractor failure	Explosion	Public perception
	Systems failure	Breakdown in labour relations	Failure of legal compliance	Pollution	Privacy Ordinance
	Poor working capital management	Expropriation of assets	Onerous contract conditions	Drought or flood	Rights of Service Recipients
	Inappropriate accounting policies	Political upheaval		Other natural disasters	Liability of Directors

Risk assessment is more difficult than risk identification. Risks that give rise to frequent losses (for example, increasing the incidence of bad debts or the level of warranty claims) are easiest to calculate based on past experience, whilst very infrequent losses are hard to quantify in probability terms. Risks with a likelihood of arising once in a hundred thousand over the next three years or more (e.g. an earthquake or a political uprising) do not have much meaning for an agency trying to meet stakeholders' expectations next quarter. It is more important to quantify the potential consequences of identified risks and define alternative courses of action to manage, or mitigate, such risks."





From the above risk-mapping graph<sup>11</sup>, Donald suggested that to identify the possible risks and their impact in the organisation; we should attempt to quantify them with measures such as probability and level of impact. The probability of risk represents the frequency it might occur. The more likely it will occur, the higher the probability it has. For NGO, it is a good practice to measure the organisation risk regularly by referencing the risk management cycle we have mentioned earlier. The level of impact means the effect caused by the risk. The bigger attack it will bring to the organisation, the higher impact it has. As suggested by the experts, the number of impact could be in the form of:

- Direct loss of money (cash or credit)
- Breach of legislation
- Loss of reputation/goodwill
- Endangering of staff or customers
- Breach of confidence
- Loss of business opportunity
- Reduction in operation efficiency/performance
- Interruption of business activity

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<sup>11</sup> Marchand, Donald A., P. 217



By mapping the probability of risks against the level of their impact on a graph, it could be seen as an overall picture of the kind of risks that may threaten the organisation. It is important to review and update the current controls prepared for each of these risks, or to set up new control to reduce the level of damage caused by any possible new risk.

### Risk Monitoring & Control

The success of risk management lies on the continuous effort made by the Board, the management or even staff at each level. An organisation should set up a risk management plan, build up a regular timeframe for reviewing the current risk control system. The risk control alarm should be extended to staff level; it is because even a frontline staff might possibly notice area that the Board or the management may never see. For example, they could obtain some first-hand information through their contact with users and service recipients. From the feedback of the users, the frontline staff will also be soliciting information about competing agencies.

Keeping a good record system for monitoring and recording each risk control would be beneficial to the organisation. Once a risk control is used, management should record the timeframe required for controlling the risk, procedures involved, responsible party, additional risk factors found to be related to the risk, and additional risk control that has been taken to stop the risk. The record system would be good for internal reference and review. The organisation should be using it for risk control improvement, for example, how to shorten the response timeframe.

It is important to note that the function of regular audit might not be adequate to detect fraudulent activities within an organisation. This activity requires a dedicated team of professionals, whose role is to design audit plan and business continuity procedures. Sometimes information systems auditors, risks experts, policemen, and risks assessment professionals are used. Risks associated with fraud are becoming a significant concern among profitable and non-profit organisations. While regular risk management system would induce better integrity of an organisation, detection of fraudulent behaviour would require specific procedures to *mitigate the risk of fraud*.

### Risk Avoidance & Mitigation

In addition to regular risk monitoring and control, we should build up a risk tracking and action table as shown in the diagram below in order to avoid and mitigate risks:



### Risk Tracking & Action Table

Priority Level	Risks	Risk Factor	Tracking Method	Risk Control Party	Action Required	Estimated Timeframe for action completion /response timeframe)
2	Strategic - Poor Marketing Strategy	Change in user behaviour	Feedback from staff, feedback from customers, regular site visits, newspapers	Risk control leader & its team, marketing team or committee	Review & improve marketing plan	
1	Lack of Resources	Financial shortage, decrease of service users, poor financial control	Regular check up on cash flow, statistics and trend of service use	Risk control leader & its team, fund raising committee, financial controller	Review & improve fund raising plan, approach sponsors	1 Day
1	Infected disease such as SARS	Internal or external unavoidable attack, poor air conditioning, unhygienic environment, no regular clean up, etc.	Regular cleaning check up of office, reception officer, staff's direct reports, newspapers	Risk control leader & its team	Set up disease prevention policy, immediate notice to whole office, clean up regularly, execute related policies	

Priority Level: 1 = Top priority, risk that required an immediate action  
 2 = Medium Priority, risk that should be dealt with a high concern  
 3 = Low Priority, risk that could be dealt with a least priority

The above diagram shows the kind of control used to track the source of risk factor, tracking method, responsible party, action required, estimated timeframe for completing the action, and the priority for dealing with each risk.

We should decide what action should be taken for minimising risks as identified, and to identify the cost and prioritise the level of risk protection. When two or more risks occur and require attention at the same time, the priority level would indicate which risk has to be dealt with first. The action required should not simply be taken when risk occurs, they should also be reviewed and



updated regularly; some of them should be implemented in the organisation as the gatekeeper in the form of set procedures that would affect daily service operation.

There are simple steps in building a business continuity plan. In order to avoid and mitigate risks, it is advisable that an organisation should remove the non-commercial risks and place them as the first priority; these are injury risks, property damage risks, legal and contractual liability risks and business interruption risks. It is possible to lower the burden of risks by sharing them with external parties, such as purchasing insurance, setting up joint-ventures, subcontracting risky difficult tasks, and protecting the agency through contractual agreements, leaving some of the risks and responsibilities to the service recipients themselves, etc.

*The overall process of Risk Analysis, Risk Monitoring/Control and Risk Avoidance/Mitigation can be considered a cycle within the risk management system. This cycle should be reviewed thoroughly on an annual basis to investigate and assess any new exposures to the organisation and to determine whether the existing system is still valid and relevant to the overall operating environment.*

### **Key Steps:**

1. Begin the Business Continuity Plan by using the risk identification worksheet (see attached) to identify key potential risks. Describe the risks.
2. Assess the risks and identify the consequences of such risks. Refer to the Risk Matrix and the discussion on Risks Exposure.
3. Map the type of risks using the risk mapping diagram. Risks rating may be used.
4. Next, follow the format for risk tracking on the previous page. This should determine the type of actions needed as a result of the risks identified.
5. Discuss and agree what are the key risks and the acceptance level at the board of directors level.
6. Clarify the organisational roles for the type of risks deemed acceptable by the organisation. Which party should be responsible for what?
7. Clarify the roles for the front line. What type of information can they provide to management into management's early warning system?

8. Begin to consider risks in all new project review. Use the sample new project worksheet as a starter.
9. Agree a time to review the decisions taken today.
10. Communicate the risks to core management team.



## PROJECT EVALUATION WORKSHEET, WITH RISKS CONSIDERATIONS

### PROJECT RECORD

Date: \_\_\_\_\_  
Project \_\_\_\_\_  
No. \_\_\_\_\_  
Prepared by \_\_\_\_\_  
Checked by \_\_\_\_\_

### PROJECT NAME

### DURATION:

### BRIEF DESCRIPTION:

### DESIRED OUTCOME OF THIS EVALUATION (CHECK ONE):

☐ No Decision ☐ Decision to Do Nothing  
☐ Decision to Do Something (Describe): \_\_\_\_\_  
☐ Partial approval of funds (\_\_\_\_%)

### ARGUMENTS FOR:

### ARGUMENTS AGAINST:

### HOW WILL OUR MISSION BE REINFORCED BY THIS PROJECT?

### EXPECTED OUTPUT OR OUTCOME:

### ASSUMPTIONS ON WHICH EXPECTATIONS ARE BASED:

**MAJOR RISKS:**

**WHO IS RESPONSIBLE FOR IMPLEMENTATION?**

**PROJECT MANAGER:**

**PROJECT TEAM MEMBERS**

**KEY MILESTONES:**

**1. START**

**2.**

**3.**

**4.**

**5.**

**6.**

**7. CLOSURE**

**RISK EXPOSURE OF PROJECT**

**1. STRATEGIC** PROBABILITY AND LEVEL OF RISKS

**2. FINANCE**

**3. OPERATIONAL**

**4. SOCIAL ENTREPRENURIAL**

**5. TECHNICAL**

**6. ENVIRONMENTAL/LEGAL**

**FINANCIAL PROJECTION**

Year	1	2	3	4	5	6	7	8	9	10
Estimated Revenue										
Estimated expenditure										
Capital Investment required										
Estimated net cash flow										
									IRR	
									NPV	



## **Annex B**

### **Scoring Guidelines and Comparison of Quality Standards**

# Scoring Guidelines and Comparison of Quality Standards

This is a scoring comparison between the working scale used in the Baldrige Award, the Hong Kong Management Association Award (based on Baldrige) and on the European Business Excellence Model. The basis of evaluation and comparison is the MAS system maturity scale derived from GISDER.

Because evaluation can be judged from other perspectives – namely in terms of the degree of deployment, results (output and outcome), and levels of control and maturity – the assessors may want to derive or interpret the scores using the first two of the perspectives, then using this insight, to derive the score for the MAS maturity scale. This Guideline will illustrate how the three scales are in fact related and can be used for cross-referencing.

This is taken from the Management Audit System Manual provided to users.



Status	Capacity <sup>1</sup>	Approach/ Deployment <sup>2</sup>	Levels of Control/Maturity (MAS)	Output/ Outcome Results <sup>3</sup>
0	Nonexistent	0% - 9% <ul style="list-style-type: none"> <li>➤ No systematic approach is evident;</li> <li>➤ Information is anecdotal.</li> </ul>	➤ Management system and control <b>do not exist</b> or has never been done on this component.	➤ There are no results or poor results in areas reported. ➤ Mostly unacceptable results.
1	Elementary	10% - 29% <ul style="list-style-type: none"> <li>➤ The beginning of a systematic approach.</li> <li>➤ Major gaps exist in deployment that would inhibit progress in achieving the basic purposes of the items.</li> <li>➤ Early stages of a transition from reacting to problems to a general improvement orientation are evident.</li> </ul>	<ul style="list-style-type: none"> <li>➤ System at <b>initial stage</b>, just started; ad hoc. Control over this management process <b>has just being put in place.</b></li> <li>➤ New management systems are being introduced at present.</li> <li>➤ Beginning of prevention basis.</li> <li>➤ Belief control system in place.</li> <li>➤ Less than one year of maturity.</li> <li>➤ Attempts to set up targets have started, but realistic targets are not yet set.</li> </ul>	<ul style="list-style-type: none"> <li>➤ There are some improvements and/or early good performance levels in a few areas.</li> <li>➤ Results are not reported for many to most areas of importance to your organization's key business requirements.</li> <li>➤ <b>Barely acceptable results.</b></li> </ul>
2	Intermediate	30% - 49% <ul style="list-style-type: none"> <li>➤ An effective, systematic approach, responsive to the basic purposes of the service, is evident.</li> <li>➤ The approach is deployed, although some areas or work units are still at early stages of deployment.</li> <li>➤ The beginning of a systematic approach to evaluation and improvement of the basic service.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The process of control <b>is not yet defined but has been implemented in some areas.</b></li> <li>➤ The system has been an on-going system for a little more than a year. Has been used at least once and can be smoother operationally however.</li> <li>➤ Belief control system and diagnostic controls are in place. Repeatability suggests regular monitoring of the component is in place and is becoming a routine.</li> <li>➤ <b>Irregular.</b></li> </ul>	<ul style="list-style-type: none"> <li>➤ Improvements and/or acceptable levels are reported.</li> <li>➤ Early stages of developing trends and obtaining comparative information are evident.</li> <li>➤ Results are reported for many to most areas of importance to your organization's key business requirements.</li> <li>➤ <b>Adequate results.</b></li> </ul>

<sup>1</sup> To read, the attribute or the system being evaluated has 0 to 9% of the basic features or characteristics as described in the good practice guide for that management system. This is from the Hong Kong Management Association (HKMA) and the Malcolm Baldrige Award Scoring Scheme, 2003.

<sup>2</sup> Source: The HKMA and Malcolm Baldrige Award Scoring Definitions. 2003.

<sup>3</sup> Source: Results score from the European Business Excellence Model, 1996.



Status	Capacity	Approach/ Deployment	Levels of Control	Output/ Outcome Results
3 Operational & Functional	50% - 69%	<ul style="list-style-type: none"> <li>➤ An effective, systematic approach, responsive to the overall purposes of the service and your key business requirements, is evident.</li> <li>➤ The approach is well deployed, although deployment may vary in some areas or work units.</li> <li>➤ A <b>fact-based</b>, systematic evaluation and improving the efficiency and effectiveness of key processes.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The control process and system <b>have been defined and are being implemented</b> for all practical purposes. Belief control, diagnostic control, and boundary control system are in place.</li> <li>➤ Clear documentation exists. What is this system, how it should work, how it is being monitored, and when it should be amended are all in place.</li> <li>➤ Evaluation and improvement cycles exist and there is some evidence of integration of systems.</li> <li>➤ Individuals can quickly locate policies and procedures as they have been documented, updated, and <b>regulated</b>.</li> <li>➤ Regular.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Improvement trends and/or <b>good performance levels</b> are reported for most areas of importance to your organization's key business requirements.</li> <li>➤ No pattern of adverse trends and no poor performance levels are evident in areas of importance to your organization is key business requirements.</li> <li>➤ Business results address most key customer, market, and process requirements.</li> </ul>
4 Advanced	70% - 89%	<ul style="list-style-type: none"> <li>➤ An effective, systematic approach, responsive to the multiple requirements of the service. The approach is well deployed, with no significant gaps.</li> <li>➤ A fact-based, systematic evaluation and improvement process and organizational learn/sharing are key management tools; clear evidence of refinement and improved integration as a result of analysis and sharing.</li> <li>➤ The approach is well integrated with your agency.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The control process and system are working well (<b>regulated</b>) and are <b>being verified by an independent party</b>.</li> <li>➤ Separation of duties for critical work is mandated.</li> <li>➤ Belief control, diagnostic control, boundary control, and interactive control systems <u>all</u> in place.</li> <li>➤ The agency is recognized as a local leader in their field. Policy deviations, variances, exception reporting are employed and are independently verified from time to time.</li> <li>➤ Only qualified personnel are employed.</li> </ul>	<ul style="list-style-type: none"> <li>➤ <b>Current performance is very good in areas of importance.</b></li> <li>➤ Most improvement trends and/or current performance levels are sustained, and evaluated against relevant comparisons and/or benchmarks show areas of leadership and very good relative performance levels.</li> <li>➤ Key indicators and results address most key customer, market, process, and action plan requirements.</li> </ul>



Status	Capacity	Approach/ Deployment	Levels of Control	Output/ Outcome Results
5	Best Practice	<p>90% - 100%</p> <p>➤ An effective, systematic approach, fully responsive to all the requirements of the service and all your current and changing business needs, is evident.</p> <p>➤ The approach is fully deployed without significant weaknesses or gaps in any areas or work units</p> <p>➤ A very strong, fact-based, systematic evaluation and improvement process and extensive organizational learning/sharing are key management tools; strong refinement and integration, backed by excellent organizational-level analysis and sharing, are evident.</p> <p>➤ The approach is fully integrated with your agency needs.</p>	<p>➤ The system is <b>now optimised</b> and recognised as strength by other agencies.</p> <p>➤ The management system and control process <b>is integrated and coordinated</b> with the Board of Directors and other management systems: Excellent integration of governance practices with management practices.</p> <p>➤ The system is now a well-oiled machine and most of the good practices are in place.</p> <p>➤ The agency is forward-looking and has a strong understanding of and acceptance for governance and management.</p> <p>➤ Co-ordination with the board is strong and the board now works together seamlessly with management to bring about this component.</p> <p>➤ The agency is an <u>international</u> leader in its field.</p>	<p>➤ Current performance is excellent in most areas of importance to your organization is key business requirements.</p> <p>➤ <b>Excellent improvement trends and/or sustained excellent</b> performance levels are reported in most areas.</p> <p>➤ Evidence of industry and benchmark leadership is demonstrated in many areas.</p> <p>➤ Key indicators fully address key customer, market, process, and action plan requirements.</p>